

JPRS-CAR-91-015  
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# ***JPRS Report***

# **China**

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# China

JPRS-CAR-91-015

## CONTENTS

19 March 1991

### INTERNATIONAL

#### GENERAL

Progress in Superpower Disarmament Discussed [BAN YUE TAN No 24]	1
New Trends in International Affairs [GUOJI ZHANWANG No 171]	2
Improved Soviet-Japanese Economic Ties Viewed [Hong Kong LIAOWANG OVERSEAS EDITION No 7-8]	4

#### UNITED STATES

U.S. Seen Searching for Post-Cold War Role [Hong Kong LIAOWANG OVERSEAS EDITION No 7-8]	5
--	---

#### NORTHEAST ASIA

DPRK Calls for UN Membership of Unified Korea [RENMIN RIBAO 1 Mar]	7
Analysis of 'Grim' Future of Kaifu Cabinet [XINHUA]	7
Japan's Political Situation Affected by Gulf War [RENMIN RIBAO 28 Feb]	7
DPRK Rejects 'Unilateral UN Membership' [XINHUA]	8
Pyongyang Rally Denounces Team Spirit-91 [Beijing International]	9
NODONG SINMUN Commentary on UN Entry Cited [Beijing International]	9

#### NEAR EAST/SOUTH ASIA

U.S., Israel 'Split' Over Middle East Peace [XINHUA]	9
--	---

#### WEST EUROPE

NPC To Name New Ambassador to UK [Hong Kong SOUTH CHINA SUNDAY MORNING POST 3 Mar]	9
---	---

### POLITICAL

Leading Role of Political Orientation Affirmed [ZHENLI DE ZHUQIU No 1]	11
Song Ping Discusses Cadre Management [LINGDAO KEXUE No 11]	13
Stratified Analysis of Marx's Socialist Theory [SHEHUI KEXUE No 12]	15
Roles of Party, Union, Director in Enterprise Management [JINGJI WENTI No 12]	18

### ECONOMIC

#### NATIONAL AFFAIRS, POLICY

Economic Policies, Causes of Poor Results [JINGJI YANJIU No 11]	22
---	----

#### PROVINCIAL

Tibet Achieves Record Economic Gains [XINHUA]	28
qAchieving Stable Economic Development in Guangzhou [GUANGZHOU RIBAO 31 Dec, 1 Jan]	29

#### FINANCE, BANKING

Shanghai's Financial Strategy for 1990's [CAIJING YANJIU No 11]	35
---	----

Causes of Weakened Financial Administration, Remedies [ZHONGHUO JINGJI WENTI No 6] .....	39
'No Optimism' for Present Financial Situation [JINGJI GUANLI No 11] .....	45
Current Financial Problems, Solutions [JINGJI LILUN YU JINGJI GUANLI No 6] .....	49
Financial Departments Work To Clear Debts [XINHUA] .....	54
Bank of China Data Processing Centers Join SWIFT [XINHUA] .....	54

## MINERAL RESOURCES

Hebei County Gold Production Profiting [Hebei Radio] .....	54
--	----

## INDUSTRY

Agenda for Statistics Work in 1991 [ZHONGGUO TONGJI XINXI BAO 3 Jan] .....	54
--	----

## FOREIGN TRADE, INVESTMENT

Make Pudong Catalyst for Shanghai's Development [CAIJING YANJIU No 11] .....	57
Analysis of Fujian's Foreign Trade Reform [FUJIAN LUNTAN JINGJI SHEHUI BAN No 11] .....	61
Increased Building Material Exports During Eighth 5-Year Plan [XINHUA] .....	65

## POPULATION

Impact of Population Growth on Natural Resources [JINGJI CANKAO BAO 1, 8 Jan] .....	66
Progress in Gansu's Family Planning Efforts [XINHUA] .....	67

## AGRICULTURE

Shanxi Grain Purchase, Sales System Reforms Assessed [ZHONGGUO NONGCUN JINGJI No 11] .....	68
Survey of Northeast Agricultural Issues [NONGCUN GONGZUO No 12] .....	72
Report on Shanxi Peasant Burdens [JINGJI WENTI No 12] .....	76
Jiangxi Agricultural S & T Achievements [JIANGXI RIBAO 21 Jan] .....	79
Shanxi Grain Output, Agricultural Investment [JINGJI CANKAO BAO 11 Feb] .....	80
Xinjiang Applies Science, Technology to Agriculture [XINJIANG RIBAO 27 Feb] .....	80
Scientists Develop Improved Oil-Bearing Crops [XINHUA] .....	81
Fish Production Exceeds Annual State Target [XINHUA] .....	81

## SOCIAL

Critique of CPC Policy on Religion [Taipei CHUNGKUO TALU YENCHIU No 6] .....	82
Minority Language Books Published [XINHUA] .....	87
Reform Encourages Advanced Education for Farmers [XINHUA] .....	87
Universities To Recruit 620,000 Students [XINHUA] .....	88

## MILITARY, PUBLIC SECURITY

Historical View of Military-Civilian Relations [JUNSHI LISHI No 6] .....	89
Anonymous Account of Army Role on Tiananmen Square [Hong Kong CHU SHIH NIEN TAI No 252] .....	92
Mass Production of Zhi-8 Helicopters Begins [XINHUA] .....	97

## REGIONAL

### CENTRAL-SOUTH REGION

Guangdong Courts Intensify Attack on '7 Vices' [FAZHI RIBAO 9 Jan] .....	98
Guangdong Issues Rules on Protecting Elderly [NANFANG RIBAO 23 Jan] .....	99

**NORTHEAST REGION**

Use, Supervision of State Power Viewed [FENDOU No 1] ..... 100

**NORTHWEST REGION**

Gansu Stresses Improved Elementary Education [XINHUA] ..... 101

**PRC MEDIA ON TAIWAN AFFAIRS**

LIAOWANG Analyzes Slumping Stock Market  
[Hong Kong LIAOWANG OVERSEAS EDITION No 46] ..... 103

**TAIWAN**

General Wang Sheng Discusses Political Warfare [HSIN HSIN WEN No 193] ..... 105  
KMT Values Support of Overseas Chinese [CNA] ..... 107

**HONG KONG, MACAO**

Two Major Domestic Crises To Confront [MING PAO 3 Jan] ..... 108



## GENERAL

### Progress in Superpower Disarmament Discussed

91CM0251A Beijing BAN YUE TAN  
[SEMI-MONTHLY TALKS] in Chinese No 24,  
25 Dec 90 pp 15-17

[Article by Dai Zengyi (2071 1073 5030), XINHUA senior editor: "How Should We View Superpower Disarmament?"]

[Text] The progress of superpower disarmament between the United States and the Soviet Union is a major indication of the trend toward detente in the international situation at the end of the eighties and the beginning of the nineties. Even though the two superpowers still have considerable military strength and often intervene militarily in regional hot spots, when compared with their arms competition of the past, we can say that 1990 marks an important beginning for disarmament in the nineties. People hope that this impetus for disarmament will see further progress.

1. The reason people are universally concerned about disarmament and hope, through this impetus, to restrict the arms race and to guarantee global security is, first of all, because the military strength of the two superpowers at the end of the eighties had expanded to an extreme extent, posing a serious threat to numerous small and mid-sized countries and to world security. This was manifested as follows.

—There was a sharp increase in the nuclear stockpiles of the United States and the Soviet Union. The two sides each possess approximately 10,000 nuclear warheads. These warheads are deployed in land-based, sea-based, and cruise missiles and carried aboard piloted bombers. The ICBM's, intermediate-range missiles, submarine-launched missiles, long-range bombers, and intermediate-range bombers, which the United States and the Soviet Union possess, have, since the seventies, increased from twofold to fivefold. Along with other types of strategic nuclear weapons and tactical nuclear weapons, as well as strategic launch vehicles, their total number of nuclear weapons comes to more than 50,000.

—The conventional military strength possessed by both the United States and the Soviet Union at the end of the eighties was a peacetime high. The Soviet Union has more than 3 million conventional force troops, several thousand tanks and armored vehicles, and more than 300 nonnuclear seagoing naval vessels. The United States possesses more than 1.2 million conventional force troops, several thousand tanks and armored vehicles, and close to 600 nonnuclear seagoing naval vessels. The two military pact organizations, NATO and the Warsaw Pact, which consider naval strength a dominant factor, separately have from 1,500 to 2,500 vessels, including nonnuclear submarines, seagoing warships, and naval aircraft.

—The military spending of the two superpowers accounts for almost 80 percent of the military spending of the entire world. In 1989, the U.S. military budget came to \$299 billion, accounting for 6-7 percent of GNP. According to estimates, Soviet military spending was about \$300 billion or more, accounting for 15-17 percent of GNP.

—The United States and the Soviet Union have, respectively, more than 600,000 and more than 470,000 troops stationed abroad. Their Navies are in several oceans and on the high seas....

2. In the last several years, there has been an excellent beginning made in the field of disarmament. This has been manifested in several sets of bilateral and multilateral talks which have achieved varying degrees of success and progress.

—The United States and the Soviet Union concluded an INF treaty and, in accordance with its provisions, they each successfully destroyed the intermediate-range and medium-short-range missiles that they had deployed in Europe while overseeing and verifying each other's destruction process.

—After tense negotiations lasting 1 year and 8 months, the 16 NATO countries and the six Warsaw Pact countries, on 22 November in Paris at a CSCE summit meeting, formally signed a reduction of conventional forces in Europe treaty. The treaty provisions, which go into effect in 40 months, require that the military arms these countries possess in Europe be limited to 20,000 tanks, 30,000 armored personnel carriers, 20,000 artillery pieces, 6,800 fighter aircraft, and 2,000 combat helicopters. In addition, one country cannot possess more than 13,300 tanks, 20,000 armored vehicles, 13,799 artillery pieces, 5,150 fighter aircraft, and 1,500 combat helicopters, and the total number of any of these arms that one country can have is not to exceed one-third those of the pact to which that country belongs. Conclusion of the treaty will ensure that a balance of conventional forces will be maintained in Europe, and it represents an important step forward in European disarmament—which had been at a standstill for some time.

—The U.S.-Soviet START negotiations have seen important progress. These talks, which began in 1982, have undergone a long, complex process. It was only after the October 1986 U.S.-Soviet summit conference in Reykjavik, Iceland, that initial goals for large reductions in strategic arms were proposed. For the past two years, the two sides, following intense bargaining, have arrived at a "framework of an agreement." On 1 June 1990, U.S. and Soviet leaders announced this in a joint statement. The statement stressed that the two parties would reduce within seven years the three categories of strategic means of delivery that they each possess—that is, ICBM's, submarine missiles, and heavy bombers—to 1,600 vehicles, reduce the warheads they each possess to 6,000, and reduce the throw weight of their warheads so as not to exceed one-half

the level now possessed by the Soviet Union. Representatives from the two sides, as well as the foreign ministers, have expressed a need to resolve their remaining differences and complete preparations on the language as soon as possible in an attempt to have an early formal conclusion to the treaty.

—Talks on chemical weapons have achieved initial success. Chemical weapons are weapons of mass destruction second only to nuclear weapons. The United States possesses a 30-50,000 ton stockpile of chemical weapons. The Soviet Union, by its own admission has 60,000 tons. The two countries had held talks on banning chemical weapons on a number of occasions, but without any progress. On 1 June 1990, the U.S. and Soviet leaders signed an agreement. It stipulates that before the end of 1999 each party will destroy 50 percent of their chemical weapons stockpiles and that before the year 2002 each party will have reduced the weapons of this type that they possess to 5,000 tons. It will be decided through consultation, after the treaty becomes effective, to stop all production of chemical weapons.

—The talks on limiting underground nuclear testing have achieved new progress. After six rounds of talks, beginning in November 1987 and lasting until early 1990, the two sides agreed on questions pertaining to limiting nuclear testing and reached agreement on visits to each other's test sites and joint inspections. On 1 June 1990, U.S. and Soviet leaders signed the protocols on ensuring the observance of nuclear test limitations (frequency, equivalence, and so on) and verification measures.

—In recent years, both the United States and the Soviet Union have separately announced draft plans to cut back on military forces, decrease military spending, and reduce overseas bases and the overseas stationing of troops. At the beginning of 1990, the United States announced that, within five years, it would reduce the number of its troops by one-fifth and that the original plan to gradually increase military spending over the next three years had been reduced by \$67 billion. In May 1990, the U.S. Defense Department announced reductions and cutbacks of more than 40 military bases, and in September it announced another cutback in operations at more than 120 bases. In 1987, Soviet leaders announced at the UN General Assembly that they would cut troop strength by 500,000 within five years, and that military spending would be decreased year by year.

3. The new impetus toward disarmament has transformed the situation in which there was a great deal of difficulty and very little progress being made in bilateral and multilateral disarmament talks and reflects the great powers coming closer together with respect to disarmament. These changes are the result of major changes in the international situation and in the great powers themselves—changes which have produced strategic and policy readjustments.

The prolonged and heated arms race forced the two great powers to pay a heavy price and affected their competition with other countries. Having year by year rushed headlong along the path of continually expanding its military strength, the Soviet Union's economic efficiency and technical skills lag more than 10 years behind Western countries. Compared to major Western countries, the Soviet Union's overall national strength and GNP stand in third, fourth, or an even lower place. Since the end of the war, the United States has been unable to do what it would like because its confrontation with the Soviet Union and the need to develop its military strength have forced it to continually increase its armament. During the eight years of the Reagan administration, military spending approached \$2.5 trillion, causing the federal budget deficit to reach approximately \$200 billion each year. Beginning in 1985, the United States became a world debtor nation. And in the realm of high technology, the United States has been sharply challenged by Germany and Japan. It is for these reasons that the United States and the Soviet Union have to readjust their policies and cut back on armaments.

At present, the arms race between the two superpowers has not truly ended. It is becoming more of a quality competition. They are using their new scientific results to develop space weapons, thereby expanding the arms race from land, sea, and air to outer space. In 1983, the United States began to promote its "Strategic Defense Initiative" (that is, the "Star Wars Plan") to counter surprise attacks from Soviet missiles by "destroying" them in space. Several billion dollars each year are still being invested in the program's development. Following its deployment in the seventies of an improved defense system using land-based missiles to intercept warheads, the Soviet Union is now developing this system into a space antimissile system. This kind of competition is creating a new threat to world peace.

At present, U.S.-Soviet disarmament talks have focused mainly on quantities and avoided quality. The nuclear weapons now possessed by the United States and Soviet Union could still destroy the world 10 times. Consequently, disarmament is currently still only at an initial stage.

#### New Trends in International Affairs

91P30104A Shanghai GUOJI ZHANWANG [WORLD OUTLOOK] in Chinese No 171, 8 Jan 91 pp 21-22

[Article by Xia Liping (1115 4539 1627) and Zhang Wuping (1728 2976 1627): "Several New Characteristics of Current International Relations and Their Impact"]

[Text] At present the old international strategic situation characterized by bipolar confrontation and based on the Yalta system created after World War II has dissolved. The world is beginning to enter a transitional period toward establishing a new strategic situation. During this period, although basic questions in international relations still remain problems of East-West and North-South, some new characteristics have appeared.

#### Four Imbalances and One Equilibrium

1. Imbalance in U.S.-Soviet strength. In recent years the Soviet economy has gotten progressively worse. As far as the economy and S&T are concerned, not only has the gap with the United States not closed, it has widened. Soviet GNP has dropped from 52 percent of U.S. GNP in 1985 to approximately 46 percent at present. Following in the footsteps of the radical changes which took place in Eastern Europe last year, the Warsaw Pact now exists in name only. In this situation, U.S.-Soviet military balance tends to favor the United States.

2. Imbalance in North-South economic development continues to increase. Currently the majority of Third World countries are facing the pressures of a heavy debt burden, slow economic growth, and the upsurge of trade protectionism by the developed countries. Total debt for developing countries as of the end of 1989 surpassed \$1.3 trillion, equivalent to more than half of the total GNP for these countries. Each year approximately \$200 billion is spent on interest and principal payments. The average economic growth rate of developing countries has dropped from 3.4 percent in 1989 to 2 percent today. The unfair old international economic order has caused developing countries to remain in the inferior position of being exploited in international economic exchanges. Moreover, the resurgence of protectionism among developed countries has caused even greater difficulties in their economic development.

3. Imbalance in South-South economic development and an increase in the economic gap. Economic growth in a minority of countries and areas, such as Asia's "four small tigers," has sped up. However, the economies of the other developing countries have stagnated or even shown negative growth. Differences in per capita income among developing countries continue to grow.

4. Imbalance between economic, political, and military strength of the United States, Japan, and Germany. Currently Japan and Germany still cannot compare politically and militarily to the United States in its position as world superpower. However, the United States is running into some relatively big economic problems. Its financial and trade deficits remain high; national debt has already reached \$3.1 trillion and is estimated to top \$4 trillion in 1991. The U.S. economy is less and less able to support the heavy burden of its military expenses. On the other hand, Japan and Germany have great economic strength; Japan has already replaced the United States as the world's largest creditor nation and capital exporting country. But as defeated nations of World War II, Japan's and Germany's military strengths have been restricted in various aspects. Thus, they do not possess global political influence.

5. Developing trend toward economic equilibrium among the major Western countries. Currently, in step with the decline in U.S. economic strength, Japan's and Germany's economic strengths are increasing rapidly. According to estimates by economic analysts, if Japanese and U.S. GNP continue to grow at a rate of 4 percent and

2.5 percent respectively, Japan's absolute GNP will be roughly the same as that of the United States by the beginning of the 21st century. Unified Germany's GNP is rapidly approaching \$1.5 trillion, ranking as the third economic superpower, and quickly closing the gap with the United States and Japan. In the arena of international finance, the leading role of the U.S. dollar has already been replaced by a triad consisting of the U.S. dollar, the Japanese yen, and the Deutsch mark.

#### The International Situation Is Complicated and Unstable

At present the new characteristics appearing in international relations mentioned above are causing a relaxation in East-West relations (especially U.S.-Soviet relations). However it is also exacerbating North-South problems. Problems are developing among the Western countries; South-South problems are also increasing. Thus the world situation will accordingly become more complicated and unstable.

1. The harmonious and cooperative U.S.-Soviet relationship will continue to develop; however, bilateral problems and conflicts remain. At present, since the U.S.-Soviet balance of power favors the United States and Soviet attention is focused on resolving domestic problems, the United States and Soviet Union have more common ground on issues of arms control and regional conflicts. They are paying greater attention to coordinating their stands and cooperating on these issues. This is advantageous to reaching greater accord on U.S.-Soviet arms control and in resolving some regional conflicts. However, as far as the other's military power is concerned, the United States and Soviet Union are still wary of each other. The United States also has misgivings on whether the Soviet situation will take a turn for the worse. Moreover, the United States wants to establish its "position as world leader after the cold war"; the Soviet Union is worried that the United States will dominate the world. They still have some international interests that are problematic and mutually conflicting. Conflicts between them will not stop completely.

2. As military confrontation between East and West eases, there are some regionally powerful countries with expansionist ambitions which are becoming factors of new instability. At present, peace and development are still the two major trends in the world; the relaxation in East-West relations has caused a great decrease in the possibility of a large-scale war between the United States and the Soviet Union. But, on the other hand, the weakening of U.S.-Soviet influence on and control of the world, is causing racial, territorial, resource, and religious problems which had previously been concealed by the "cold war" to crop up again. The intensification and development of these problems could lead to regional conflicts and local wars. At the same time, the declining U.S. and Soviet influence and control in all regions could also cause regionally strong countries with expansionist ambitions to take the opportunity to enlarge the scope of their powers and try to fill the "vacuum" left by the



United States and Soviet Union. This will be a major cause of instability in the world today and in the future.

3. In the present situation, the areas in which it will be easiest for a crisis to develop are areas where North-South problems and South-South problems are acute and overlap. In the 40 years since the end of World War II, the easiest areas for a crisis to break out have always been areas of intense confrontation and contention between East and West. In step with the relaxation of East-West relations in recent years, the exacerbation of North-South problems, and the increase of South-South problems, the areas most likely to have a crisis break out are those Third World countries that have acute conflicts and that are also areas of severe problems for North and South and areas where Western developed countries have important strategic interests. The Gulf crisis is a clear example.

4. World development toward multipolarization will pick up speed. Along with the equilibrium of economic power among the major Western countries and the trend toward development of global economic blocs, the polarization of the world economy is not far off. This polarized global economy will promote development of global political and military polarization. At present the United States, because of financial difficulties, is having to ask Japan and Germany to play a greater role in international politics. And Japan and Germany want to take the opportunity to change their image of "economic powers, political nothings" and expand their global political and military influence. This will speed up the multipolarization of world politics and military affairs.

#### **Improved Soviet-Japanese Economic Ties Viewed**

HK0403150091 Hong Kong LIAOWANG OVERSEAS EDITION in Chinese No 7-8, 25 Feb 91 p 47

[Article by Liu Guiling (0491 2710 3781): "New Changes in Soviet-Japanese Economic Relations"]

[Text] Prospects for improved Soviet-Japanese relations have surfaced over the past two years, with the long-standing stalemate in Soviet-Japanese economic relations taking a turn for the better because of the impact of East-West relaxation and the Soviet readjustment of its Asian-Pacific policy.

#### **Present Condition of Soviet-Japanese Economic Relations**

A. Trade volume is rising, with commodity variety increasing. Soviet-Japanese trade grew for a time in the 1970's. However, with the Soviet invasion of Afghanistan in 1979, Japan halted government credit loans to the USSR, and all large development projects in Japanese-Soviet cooperation and Japan's plans for exporting large-type complete-set equipment were halted, while trade volume between the two sides gradually dropped from \$5.58 billion in 1982. However, trade between the two countries has picked up since Gorbachev took office as CPSU general secretary. Trade between the two countries rose to \$5.89 billion in 1988, and was \$6.08

billion in 1989, a record high. It continued to grow in 1990 and was \$3.73 billion between January and August.

The commodity setup has also undergone great changes. Aside from the iron and steel, machinery, chemical fibers, steel pipes, timber, and aquatic products on the original list, it has been expanded continuously. Beginning in fall 1988, there has been a drastic increase in consumer materials and equipment transactions. The trade volume of electrical machinery, trucks, cars, and electrical home appliances grew by a wide margin, of which electrical machinery increased by 132.1 percent from 1988, and cars by 6.9 times.

B. There have been frequent negotiations on economic relations and trade, with many accords reached. The USSR and Japan have made substantial progress in economic cooperation through frequent negotiations since 1988. The 11th Session of the Japanese-Soviet Committee for Economic Cooperation was held in Tokyo in February 1988, and the two sides reached unanimity on initiating new channels in economic relations and trade based on the principle of mutual benefit; in addition, accords were reached and contracts initialed on exploiting forest resources in Siberia and the Far East region in cooperation and on Japan supplying polyester fiber production equipment. At the Fourth Session of the Soviet-Japanese Far East Meeting and the Soviet-Japanese Trade and Economic Negotiation Meeting in the same year, separate trade accords were also initialed. To promote Gorbachev's visit to Japan as scheduled, Japan repeated its intention and plan to expand economic ties to the USSR at the vice minister-level negotiations between the two sides in July 1990. At the Japanese-Soviet foreign minister talks held in Moscow from 21 to 24 January, the specific essentials of 11 accords and documents on Japan providing aid to Soviet reform were defined. Japan will also make a donation of \$7.7 million and a \$100 million loan to the USSR.

C. Joint ventures and technological cooperation continue to expand.

1. Presently, Japan is very active in investing in aquatic products, the petrochemical industry, and service trades in the USSR. The USSR has already signed a contract with Japan's Sanyo Electrical Machinery Company to import from the latter complete sets of equipment for producing refrigerator compressors, involving a sum of approximately \$1.2 million. Last June, the Japanese Government decided to provide the USSR with \$37 million to help the latter to exploit oil and natural gas. Several Japanese enterprises, including the Japanese Mitsui Real Estate Development Company Limited, have also signed contracts with the USSR with investments of \$80 million to build a joint-venture luxury hotel in the USSR. On 11 January last, six of Japan's major enterprises, including Mitsubishi Commercial Company and Mitsui Real Estate Development Company Limited, left for the USSR to negotiate and implement providing \$1 billion aid to the USSR. It was

reported that the number of Soviet-Japanese joint ventures had increased from nine in early 1989 to 27 in early 1990, and is still on the rise.

2. The realm of scientific and technological cooperation has been extended. It has already extended to ion physics, thermonuclear fusion, medicine, radioactivity, forestry, and earthquake forecasting. The USSR will also provide Japan with a list of military technologies that can be converted to civilian use and is ready to further expand the realm of cooperation.

#### **Backdrop to and Causes of Development of Soviet-Japanese Economic Relations**

Since the mid-1980's, the USSR has focused on Japan in unfolding economic relations and foreign affairs in the Asian-Pacific region. This is because: First, Japan is an economic and technological power, with important influence in the Asian-Pacific Region. To become a "member of the Asian-Pacific nations," the USSR must first improve its relations with Japan, while entering the "Asian-Pacific Economic Sphere" using Japan's strength. Second, the USSR wants to utilize Japan's capital and technology to accelerate Soviet economic development. A major aspect in the "Far East Economic Development Plan Up to the Year 2000," which Gorbachev proposed in 1987, is precisely an attempt to acquire capital, technology, and economic cooperation from other countries, including Japan. And third, with the relaxation in U.S.-USSR relations, the Soviet security concept has undergone great changes, while Japan is no longer regarded as a major threat to the USSR in the Asian-Pacific region. For the USSR to establish solid economic relations with Japan, it will be favorable to create an image of peace to stabilize the situation in the Asian-Pacific region in the wake of its implementation of disarmament with the United States in the region, while being capable of restricting the ever-stronger U.S.-Japanese military alliance and their pursuit of a "pan-Pacific sphere," thus paving the way for the USSR to set up its Asian-Pacific security insurance structure with the largest "international economic security system" gradually taking shape, which will most benefit the USSR.

Japan has also made corresponding readjustments in its strategy toward the USSR. Japanese Prime Minister Kaifu stated that it is necessary to make overall Japanese-Soviet relations "expand in balance." Japanese Liberal Democratic Party Secretary General Akitaro Abe made an eight-point proposal on expanding economic and cultural exchanges when he visited the USSR in January 1990. The Japanese Government also expressed its welcoming of the Soviet pursuit of a "market-oriented economy subject to regulation." In addition, Japan has deleted the clause in the 1990 White Paper on Defense stating that the Soviet troops stationed in the Far East are a "potential threat" as a stance of relaxing its relations with the USSR.

#### **Prospects in the Development of Soviet-Japanese Economic Relations**

Soviet-Japanese economic relations have been developing continuously in the 1990's. Both countries are seeking solutions to the controversial territorial issue. The high-ranking Soviet-Japanese work team for "peace treaty talks" founded in December 1989 has held six sessions. It is generally believed that some progress is likely to be made regarding the territorial issue when Gorbachev visits Japan this April. This will be favorable to pushing forward the development of the economic relations between the two countries.

So far, the two sides have continuously sent reciprocal delegations to learn from each other and to make on-the-spot investigations. The USSR sent a government economic investigation delegation and a large-type enterprises' delegation in November 1989 and early 1990 respectively to learn from Japan's managerial methods and to get a true picture of the Japanese market. Japanese business circles have also organized one delegation after another to conduct commercial investigations in the USSR.

However, the strides in the development of Soviet-Japanese economic relations cannot be too big. The chief cause lies in the fact that the "northern territories" issue between the two sides still awaits a feasible solution, and involves a process of "bargaining"; while Japan's industrial circles are not very enthusiastic about developing Siberia and the Far East in cooperation with the USSR when Japan's demand for raw materials and energy resources has been eased somewhat. The Soviet Far East region is weak in its production foundation, thus lacking attractiveness. Although some large Japanese commercial enterprises have set up offices there, most of them "have no desire to immediately expand their operations." The Soviet "market-oriented economy" is not yet in normal operation, while Japan continues to take a wait-and-see attitude regarding cooperation projects involving huge investment.

### **UNITED STATES**

#### **U.S. Seen Searching for Post-Cold War Role**

HK0403064591 Hong Kong LIAOWANG [OUTLOOK]  
OVERSEAS EDITION in Chinese No 7-8,  
25 Feb 91 p 46

[Article by Li Gang (2621 6921): "The United States Is Probing Its Role in the World After Cold War"]

[Text] The repercussions of the U.S. media's debate on whether the United States was "declining" or "reviving" were lingering when the dramatic changes in the the Soviet Union and East Europe stirred up another wave of debate in the U.S. media on what role the United States should play in the world after the cold war. And the Gulf crisis added fuel to the flames of this debate. Kissinger and Brzezinski, the two VIP's of the U.S. diplomatic policymaking organization who used to agree with each other in their opinions of the world during the

cold war, proposed contradictory principles for action in the first crisis after the cold war. This reflects the fact that as the cold war has ended, many factors that used to bring common understanding in U.S. diplomatic policies are no longer there and the ship of U.S. diplomatic policies has sailed into "uncharted waters." "The end of the cold war will almost inevitably bring people to debate U.S. foreign policies once again."

The debate in the U.S. media at present centers mainly on the following issues: First, with the decline of the Soviet military threat to Europe and the United States, is it still necessary for the United States, no longer under serious threat and without a definite opponent, to continue to shoulder the international obligations that it has carried abroad since the end of World War II? Second, what is the main objective of U.S. diplomatic policy after the cold war, to maintain interregional balance or to disseminate democracy? Third, with the end of the cold war, Americans have started to pay more attention to many questions that were neglected during the cold war, such as economic security, environment, population, and drug trafficking; yet the resources of the United States are very limited, hence the question of how to distribute these limited resources. In other words, in order to realize the political objective of the United States, to what extent are Americans willing to sacrifice their economic interests? And while encouraging its allies to share more of its burden, to what extent is the United States willing to share its power with its allies?

In the debate centering on the foregoing issues, there are three main propositions in the U.S. media. The first is isolationism, known in the United States as the "Mogwen [mai ge wen 7796 2047 2429]-Buchanan Axis." The leading exponents of this school in the media include Professor Paul Kennedy of Yale University, columnists Roland Evans and Robert Novak, and a commentator of *THE CHRISTIAN SCIENCE MONITOR*. This school holds that with the cold war coming to an end, the issue of economy has become the number-one issue of the world in place of the issue of security. "The international status of each country will be increasingly dependent on its economic strength, not its military strength." Therefore, the United States should slash its overseas obligations. In the past, the United States played the role of policeman and ended up protecting its rivals. "It is high time that the United States stopped taking up the burden of the world and started to look after itself." Furthermore, geopolitics should no longer be the guiding principle for U.S. diplomacy; democracy and human rights should become its starting point.

Differing with isolationism is the unilateralism. The leading exponent of this school include columnists Charles Krauthammer, William Safire, Richard Pohl, and Henry Kissinger. This school holds that because of the spread of high-technology weapons, the rise of regional powers, and the upsurge of nationalist sentiments, the

post-cold war world is becoming less stable. The Gulf crisis shows "the old-fashioned argument that economic strength will replace military strength after the cold war is untenable." The United States will be the only superpower in the world after the cold war, so adopting an isolationist policy will accelerate the decline of the United States. The United States must make full use of its political and military advantages to promote its economic interests. This school discredits the role of the United Nations and maintains that the diplomatic principle after the cold war should be to seek certain balance between geopolitics and human rights.

The multilateralism (also known as the school of new international order) represented by the chairman of the Foreign Relations Committee, Peter Tarnov [ta er nuo fu 1044 1422 6179 1133], and columnist Anthony Lewis holds that the United States must continue to play a leading role in international affairs; and, in the meantime, as the structure of the East-West cold war has collapsed and the relative strength of the United States and its allies has changed, they must strive to establish a new international order with the United States in the leading position. The basic framework of this new order is: First, the United States must readjust its relations with its allies so that it can establish a new partnership with its allies of a fair sharing of responsibilities and burdens. Second, the United States must continue to promote the reform in the Soviet Union and further strengthen the role of the United Nations and establish a new regional collective security structure on the basis of U.S.-Soviet cooperation. Third, the United States must continue to promote the development of democracy and a market economy on a world scale.

According to U.S. foreign policy analyst Thomas Barnett, the influence of unilateralism is declining and that of isolationism and multilateralism is rising in the U.S. media. *NEWSWEEK* columnist Robert Samuelson also thinks that whatever the result of the Gulf crisis, the isolationist mentality in the United States will continue to rise. However, Professor Robert Taker of Johns Hopkins University holds that the world is now in a period of transition from a bipolar system to a multipolar one. Because of the instability during the transition period, "the world will continue to need a big country that is capable of maintaining peace and stability" and only the United States will meet this need. "The United States will probably stop being the leader of the alliance which was formed to resist the threat of the Soviet forces and become the leader of a community made up of those countries which need the presence of the U.S. forces to maintain their still very weak peace and stability." Therefore, in this transition period, the influence of multilateralism in the United States will continue to have the upper hand. However, when the world enters a relatively stable multipolar system, "those who stand for a change to the role of the United States will get the upper hand."



## NORTHEAST ASIA

### DPRK Calls for UN Membership of Unified Korea

HK0703134091 Beijing RENMIN RIBAO in Chinese  
1 Mar 91 p 6

[XINHUA report: "Kim Yong-sun, Secretary of the Central Committee of the Korean Workers Party, on UN Membership of Korea"]

[Text] Tokyo, 27 Feb (XINHUA)—Talking about Korea's participation in the United Nations, Kim Yong-sun, secretary of the secretariat of the Korean Workers Party Central Committee, said here today: "We do not want to join the United Nations as two Koreas, but to join it as unified Democratic Confederate Republic of Korea."

Kim made this remark at a press conference held before returning home at the end of his visit to Japan.

Kim said, "The United Nations is an organization joined by the governments of all countries. If North and South Korea separately join the United Nations, it would mean international recognition of two Koreas." He again stressed the principle of joining the United Nations after reunification of the Korean peninsula.

On the question of reunification between North and South Korea, Kim Yong-sun said this is a question of Korea's national self-determination. At the press conference he denounced the joint military exercises held by the United States and South Korea. He said the responsibility for the failure to improve Korean-U.S. relations lies with the United States.

Talking about the results of his visit to Japan, Kim said this visit has been greatly conducive to strengthening friendly Korean-Japanese relations. He expressed his belief that contacts between the two sides will further expand in the future.

The Korean Workers Party delegation headed by Kim Yong-sun started a seven-day visit to Japan on 20 February at the joint invitation of the ruling Japanese Liberal Democratic Party and the opposition Socialist Party. The delegation returned home by a special plane this afternoon.

### Analysis of 'Grim' Future of Kaifu Cabinet

OW0703223191 Beijing XINHUA Domestic Service  
in Chinese 0617 GMT 7 Mar 91

["News Analysis: Kaifu Cabinet's Future Remains Dangerous and Grim By reporter Zhang Huanli (1728 3562 0448)"]—XINHUA headline]

[Text] Tokyo, 6 Mar (XINHUA)—At the Senate's plenary session held at the Japanese Diet on the afternoon of 6 March, the Liberal Democratic Party [LDP], in conjunction with the two parties not in power, the Komeito and the Democratic Socialist Party [DSP], adopted, with a majority vote in favor, the Japanese Government's second additional budget and a financial

resources bill for fiscal 1990. The main content of the second additional budget is providing additional aid of \$9 billion to the U.S.-led multinational forces. This ended the heated debate between the LDP on one side, and the parties not in power, the Japanese Socialist Party [JSP] and the Japanese Communist Party [JCP] on the other side. Thus, the Kaifu Cabinet's "contribution" to the Gulf war was finally put into effect.

After the outbreak of the Gulf conflict in August last year, the Japanese Government submitted to the Diet "the UN Peaceful Cooperation Bill" aimed at sending troops overseas. Due to the strong opposition by the parties not in office and public opinion, the bill was later proclaimed "a discarded bill." It made the Kaifu Cabinet notorious.

The Senate approved the second additional budget and a relevant financial resources bill because its budget included the additional aid of \$9 billion to the multinational forces. The passage restored Prime Minister Kaifu's ruling confidence, but in the days to come, political waves in Japan will come one after another. In domestic affairs, there is the examination of the government budget for fiscal 1991; Japan's unified local elections which will officially begin in April; and the agenda of LDP's political reform. Regarding these questions, Japan's parties not in office will never scale down their attacks on the Kaifu Cabinet. In the field of foreign affairs, the projected visit to Japan by Soviet President Gorbachev in April, U.S. demand for Japan to open its rice market, and Japan's measures for cooperating with the United Nations peacekeeping activities will be difficult questions impossible for the Kaifu cabinet to avoid.

For Prime Minister Kaifu himself, the most serious threat is, of course, the movement of influential figures of various factions within the LDP. The Takeshita, Miyazawa, and Tanabe factions within the LDP are now actively working to replace the Kaifu regime when the term of the president of the LDP ends in October this year. Therefore, any mistakes Prime Minister Kaifu may make in either domestic or foreign affairs will accelerate turbulence in the political situation in Japan and will directly affect the fate of the Kaifu Cabinet.

In the days to come, if Prime Minister Kaifu can continue coordination with various influential factions in the LDP and at the same time strengthen alliance with the Komeito and the DSP in the Diet, his cabinet may be able to tide over ring upon ring of difficulties and enhance its ruling capability.

### Japan's Political Situation Affected by Gulf War

HK0703123091 Beijing RENMIN RIBAO in Chinese  
28 Feb 91 p 7

["Dispatch" by staff reporter Yu Qing (0060 7230): "The Gulf War and the Japanese Political Situation"]

[Text] Tokyo, 26 Feb (RENMIN RIBAO)—Shortly after the outbreak of the war in the Gulf, the Japanese Government immediately formulated its "new policy toward the Gulf crisis." Its main points were first, to

provide an additional amount of \$9 billion in financial aid for the multinational forces in the Gulf and second, to dispatch the Self-Defense Force's transport planes to help carry refugees in the peripheral countries in the Gulf. In early February, fierce debates over the government's "new policy" were unfolded in the Diet.

The responsible official of the ruling Liberal Democratic Party (LDP) said that the additional financial aid of \$9 billion was planned under the pressure of the Western allies. If Japan did not provide this amount of money, it would be hard for the LDP to continue its ruling position, so the arrangement of this amount of financial aid became the pressing issue for the government and the ruling party.

Whether the financial aid of \$9 billion could be arranged was not determined by which side got the upper hand in the debates, but was determined by the final results of the vote. The LDP has a majority in the lower house, but it holds less than half the seats in the upper house. So the three main bills related to the \$9 billion aid, as the second supplementary budget bill for the 1990 fiscal year, could be passed by the lower house according to the priority principle. However, to actually raise \$9 billion, the special bill on issuing short-term national bonds and increasing taxes had to be passed by both houses. The Socialist Party resolutely opposed the bill, and another major opposition party, the Komeito, was opposed to the bill conditionally. In order to win more than half the votes for supporting the bill in the upper house, the LDP could not but accept Komeito's terms of reducing defense expenditures and revising the 1991 budget in order to seek Komeito's cooperation.

At the same time, a hubbub arose around the issue of nominating candidates for the gubernatorial election in Tokyo. The term of Shunichi Suzuki, the current metropolitan governor who has been in office for 12 consecutive years, will expire next April. The Metropolitan Assembly of Tokyo and the LDP Metropolitan Federation supported Suzuki in his campaign for reelection. However, Komeito had no intention of continuing to support Suzuki's fourth term of office. In order to promote bipartisan coordinated action, the LDP headquarters rejected the LDP local organization's request to support Suzuki's reelection, and decided to join Komeito in supporting Hisanori Isomura, a senior NHK [Japan Broadcasting Corporation] official, to campaign for the metropolitan governorship in Tokyo. This thus caused a split between the LDP central body and the LDP local organization as they nominated different candidates.

Sending the Self-Defense Force's transport planes to the Gulf was another main point of Japan's "new policy" toward the Middle East. The Cabinet issued a new administrative decree in late January on this matter, but it has not been actually executed. This is because first, Japan volunteered to offer this service, but it has not received the message of needing this service yet; second, the domestic opposition was strongly opposed to the plan to dispatch the Self-Defense Force's transport planes to the Gulf. The LDP was forced to make certain

compromises in order to ensure the arrangement of the \$9 billion aid. However, the Japanese authorities have not completely freed themselves from the predicament caused by the Gulf war. For example, some government officials promised in the Diet debates that the amount of \$9 billion would not be used in the war and would not merely be offered to the United States. In the recent supplementary budget bill the U.S. Government submitted to the Congress with regard to the expenses in the Gulf war, Japan's \$9 billion was completely used to cover the U.S. expenditure. This once again deeply embarrassed the Japanese Government and the LDP as their promise was negated by the U.S. side shortly after they mitigated the domestic pressure.

### DPRK Rejects 'Unilateral UN Membership'

OW 0102013991 Beijing XINHUA in English  
2253 GMT 28 Feb 91

[Text] United Nations, February 28 (XINHUA)—The Democratic People's Republic of Korea (DPRK) has reiterated its opposition to South Korea's idea on the "unilateral U.N. membership."

In his letter of February 22, addressed to the president of the Security Council, Ambassador Pak Gil-yon, permanent observer of DPRK to the U.N., said that Korea's United Nations membership "is an internal question to be discussed and settled between the North and the South and agreed to negotiate it as a priority issue at the North-South high-level talks."

He warned that "If South Korea's unilateral U.N. membership is admitted, it will strain North-South relations to the extreme and eventually create further tension on the Korean peninsula."

If the South Korean authorities "dare to enter the United Nations unilaterally, it will be an open challenge a treacherous act against the dialogue partner and a sort of declaration of breaking off the dialogue."

The letter was circulated here as an official document of the Security Council today.

In replying to the North Korean rejection, the South Korean authorities, in a statement issued yesterday and circulated here today, reaffirmed that "It is our firm belief that the admission of both Koreas to the United Nations, as an interim measure pending reunification, should be realized at the earliest possible date, so that the South and the North may assume their legitimate roles as responsible members of the international community."

"However," the statement said, "in the case North Korea is unwilling or not yet ready to join the United Nations, the Republic of Korea intends to seek United Nations membership during this year in anticipation of the subsequent admission of North Korea."

In recent years, the South Korean authorities have pursued simultaneous or separate admission of the two Koreas into the United Nations and argued that it would contribute to



reducing tensions on the Korean peninsula and facilitating the process of inter-Korean accommodation.

#### **Pyongyang Rally Denounces Team Spirit-91**

SK0403031091 *Beijing International Service in Korean*  
1100 GMT 3 Mar 91

[Text] Some 10,000 people from all walks of life held a rally at Pyongyang Stadium on 28 February and denounced the Team Spirit-91 joint military exercise conducted by the United States and South Korea. According to a KCNA report, Comrade Kang Hui-won, alternate member of the Political Bureau of the Central Committee of the Workers Party of Korea and vice premier of the State Administration Council, spoke at the mass rally and fully supported the Korean People's Army supreme commander's order to prepare for war.

Vice Premier Kang Hui-won said that by conducting the Team Spirit-91 joint military exercise, the United States and South Korea ruptured North-South dialogue and threw a wet blanket over the atmosphere for national unity, deliberately creating tensions. He demanded that the United States and the South Korean authorities stop the military exercise immediately.

Vice Premier Kang Hui-won said that although the Korean people love peace and do not wish confrontation and war, they will never beg the aggressors for peace. He said that the entire people of the northern half of the DPRK will defend the socialist fatherland and the gains of the revolution like a fortress.

#### **NODONG SINMUN Commentary on UN Entry Cited**

SK0403040791 *Beijing International Service in Korean*  
1100 GMT 3 Mar 91

[Text] Yesterday the DPRK's NODONG SINMUN carried a commentary saying that North Korea still requests that South Korea come to the negotiation table to settle the issue concerning entry of both North and South into the United Nations.

According to a report, it is said that in a statement dated 27 February, the South Korean Foreign Ministry will apply for separate entry into the United Nations before the UN General Assembly opens.

In the commentary, NODONG SINMUN said that North Korea has declared on several occasions its stand on entry into the United Nations and that at the same time it has made every sincere effort to settle this issue at the North-South high-level talks. NODONG SINMUN said that such a South Korean stand thus shows that it is giving up negotiations with the North.

The commentary claimed once again that before the realization of Korean reunification, the North and South must jointly enter the United Nations with one seat.

### **NEAR EAST/SOUTH ASIA**

#### **U.S., Israel 'Split' Over Middle East Peace**

OH0303184391 *Beijing XINHUA in English*  
1523 GMT 7 Mar 91

[Text] Cairo, March 7 (XINHUA)—Israel and the U.S. are split in their positions and strategy for a settlement of the Middle East issue, reports from Jerusalem said today.

Israeli Foreign Minister David Levi was quoted as saying in an interview on Israel radio that "we are in controversy" with the U.S. on how to proceed toward the settlement of the Israeli-Arab conflict, and that "the American administration has joined neither the Zionist movement nor the Likud. They have their positions and we have ours."

He also cautioned against trying "an instant, push-button approach to solve problems."

Levi was speaking after U.S. President George Bush promised "new rigor and determination in seeking a land-for-peace settlement to Israel's conflict with Palestinians and other Arabs."

Levi said the Americans had long supported U.N. Resolutions 242 and 238, which advocated the land-for-peace formula opposed by the Israeli Government.

Bush's remarks came as Western countries mounted a new diplomatic effort for Mideast peace in the wake of the Gulf war.

Israel seized the Gaza Strip from Egypt, the West Bank from Jordan and the Golan Heights from Syria in the 1967 Middle East war. The Gaza Strip and the West Bank were home to 1.7 million Palestinian people.

Levi stressed that Israel wanted to talk peace with neighboring Arab countries "without preconditions," asserting that Israel was committed to its 1989 peace initiative calling for direct talks with Arab states and limited self-rule for Palestinians in the occupied lands.

"There can be no such a thing as Israel solving the Palestinian problem while other Arab countries are at a state of war with it (Israel)," Levi said.

The Likud bloc headed by Prime Minister Yitzhak Shamir objects to relinquishing any of these territories, maintaining they are "integral to the historic land of Israel."

### **WEST EUROPE**

#### **NPC To Name New Ambassador to UK**

HK0303024891 *Hong Kong SOUTH CHINA SUNDAY MORNING POST in English* 3 Mar 91 p 2

[By David Chen]

[Excerpt] The Chinese Consul-General in Los Angeles, Mr Ma Yuzhen, will be China's next ambassador to London, succeeding U.S.-educated Mr Ji Chanzhu, it was learned yesterday.

The appointment is expected to be announced this month by the Standing Committee of China's parliament, the National People's Congress (NPC), a week before the annual session of the full NPC.

Mr Ma, 55, is a veteran career officer in the Foreign Ministry and spent many years as China's liaison man with the foreign press.

Mr Ji, 61, is expected to return to Beijing before taking up a post in New York as Under-Secretary General at the United Nations.

Mr Ma, who speaks fluent English, graduated from the Foreign Language Institute in Beijing in 1954. He then joined the party's International Liaison Department.

Between 1971 and 1979 he was director of the foreign press liaison division of the Foreign Ministry's Information Department in Beijing.

He was posted to the Chinese embassy in Ghana in 1983 and returned to Beijing in October 1984 as director of the Information Department.

In March 1988, when China opened a consulate in Los Angeles, Mr Ma was appointed its head of mission. [passage omitted]

### Leading Role of Political Orientation Affirmed

91CM0264A Beijing ZHENLI DE ZHUQIU  
[PURSUIT OF TRUTH] in Chinese No 1,  
11 Jan 91 pp 17-20

[Article by Chen Shouli (7115 134) 4409: "Re-understanding 'Politics Takes Command'"]

[Text] For a good many years the formulation "politics takes command" has not received much attention, but the reality of the past two years of severe class struggle makes us think of it once more. In the past when it was said that politics is the commander or that politics takes command, this was simply a formulation to make vivid the leading role of politics. In the armed forces there are commanders and soldiers, each of which is indispensable. Who plays the leading role? Without a doubt it is the commander, not the soldier. Can we now see from facts whether there are countries in which politics does not take command?

First, in the "aid" given by developed capitalist countries to socialist countries there is firm adherence to the principle "politics takes command," and the following examples can be cited.

1. Former U.S. President Nixon said: "Unconditional aid should not be given to" socialist countries, for "a powerful political reason. If a certain item of aid does not clearly help our own interests, Congress will not approve it."
2. Nixon made this point even more clearly: "We should insist on controlling the economic behavior of all countries that receive our help. We should ensure that they gradually privatize their economies and move toward democratic politics."
3. The U.S. Government puts politics in first place in the issue of "aid." According to a report in the 9 June 1988 issue of THE NEW YORK TIMES: "The United States has told the NATO alliance that it should not provide loans or financial aid to Eastern Europe unless the East European countries carry out political reforms and replace totalitarian politics with democratic politics." Everyone knows what kind of "political price" the East European countries have now paid for "economic aid." However, their economies have not become better; they have become worse.
4. In a 17 April 1989 report on "aid" given to Poland, AP said that President Bush had indicated that "aid" to Poland had to be "carried out simultaneously" with the granting of political concessions by the Polish Communists to "Solidarity." Everyone knows where the political concessions made by the Polish Communists have gone.
5. In 1975, to widen the rift between Romania and the Soviet Union, the United States announced that it would give Romania most-favored-nation treatment in trade. When Ceausescu was overthrown, the United States was overjoyed, but the Romanian Government would not permit the "outlawing of the Romanian Communists." After further rebellion in the country was stopped, on the

pretext that the Romanian Communists "were not carrying out reforms," the United States "announced the termination of most-favored-nation treatment." This shows how much attention it pays to politics!

6. "What kind of reforms" do they demand from the socialist countries before aid is given? Brzezinski, a high-ranking official in a previous U.S. administration, said: "The United States, Western Europe, and Japan should insist that, in exchange for providing any substantial aid, there be carried out reforms formally worked out for economic and political pluralization." This kind of "reform" would change socialism into capitalism, would make the socialist countries court their own political destruction.

7. Britain's REUTERS News Agency recently carried what it called important news, announcing that the common tactic worked out by the Western countries was that "economic reform is not the only requirement for receiving aid; the demand for political reform will more and more be the basis for aid." What a "common tactic!"

Of the views cited above, some came from representative figures and brain trust figures of the bourgeoisie, and others come from the mouths of figures and governments of the ruling class. Can anyone say that these views and the actions on them are not cases of bourgeois politics taking command?

Second, when we now look at the figures in the ruling stratum of the bourgeoisie and their countries, do they not in foreign affairs put ideas and ideology in first place, and do not political ideas take command?

1. Former U.S. President Nixon said: "In the 21st century" the United States will still be the world's "superpower in politics and ideology." He also said: "We are a beacon in ideology"; "We must stop broadcasting the nonsubstantive programs laid out by the 'Voice of America.' We must devise ways to use the new information technologies to wage the battle of ideology." The United States, in fact, has done so.
2. Nixon also said: "Ultimately, ideas, not weapons, play the decisive role in history... Our most powerful strategy lies in our ideas." U.S. President Reagan said: "The ultimate decisive factor is not the atom bomb and rocket, it is the trial of strength between wills and ideas." He called for a worldwide "democratic political movement." These two men really did a lot of work in "exporting" to the socialist countries the "ideological weapons" of bourgeois democracy, freedom, and human rights.
3. In summing up the six ways of waging the struggle against socialist countries, Nixon put "ideological strength" in first place. He said that for Third World countries to escape the influence of communism they had "to be given a political inoculation" beforehand, adding that a "war of ideas" had to be waged so that the whole world would "listen to U.S. ideas and value concepts."
4. President Bush said: "I want to be the president who helped strengthen the democratic transformation of the whole world."

What has been said above proves that the developed capitalist countries not only put political ideas in first place in their own countries, but likewise put them in first place all over the globe. They emphasize waging a "war of ideas"; and the "leadership of the Free World" that they speak of also means leadership in political ideas and ideology. Isn't this a case of the political ideas of the bourgeoisie taking command?

From this it can be seen that the capitalist countries really practice "politics taking command," put political and ideological struggle in first place, and also constantly intensify this struggle. What is sad is that for some years now some of our leaders have repeatedly called for the "diluting of politics" and the "diluting of ideology." Not limited to "diluting," it really means "abandoning." Not limited to "abandoning," it really means criticizing, defaming, and destroying one's own politics and ideology! Comrade Yao Xueyin [1202 7185 0993], a writer, hit the nail on the head with a few incisive remarks. "Some Communist Party members, members who hold positions of leadership, aim their 'guns' at Marxism and oppose Mao Zedong Thought in a big way. This is something never before seen. How can it not be distressing!"

Third, are not some of the "elite" figures, when going in for liberalization in China, putting bourgeois politics in command?

1. Almost all of the "elites" who go in for liberalization are political careerists who put politics in first place. The U.S. CHRISTIAN SCIENCE MONITOR praised Fang Lizhi in this way: "The political demands made by Fang Lizhi are without parallel in modern history." Simply put, he is a "champion" who gives prominence to politics. The "elites" say that "the situation in which the party exercises leadership over everything must be changed" and "the situation in which Marxism-Leninism guides everything must be changed," and that there must be "economic pluralization" and "political pluralization." They also say: "With the advent of more and more private businesses, a middle class could emerge in China; then, China's politics will have to change." Isn't this a case of starting from politics and of keeping politics always in mind?

2. A number of "elites" for many years have written repetitious articles saying that "literature and art are not part of ideology"; preaching that "literature and art are remote from politics" and "have a nonparty nature"; saying that "literature and art are literature and art, and they serve nobody"; preaching "pure literature and art" and "pure entertainment"; and playing up so-called "films for entertainment." In brief, they have opposed the idea of literature and art serving the people and socialism. They seemingly detest politics. However, in the end they promoted the telefilm *He Shang* [River Elegy], which "gave prominence" to counterrevolutionary politics, and which graphically portrayed this politics as being in the service of their opposition to the four basic principles and of the restoration of capitalism. Zhao Ziyang made a point of presenting this film as a gift to foreign guests. Formally, they had told many lies

about "diluting politics," "not wanting politics," and "transcending politics"—all for the purpose of opposing the politics of the people and serving the politics of the bourgeoisie, and with the implication that they would come up with another set of things that serve the politics of the bourgeoisie. The counterrevolutionary rebellion that occurred in 1989 at the time when spring was changing to summer, in the final analysis, thoroughly exposed their counterrevolutionary features. It also proved that if proletarian politics does not take command then bourgeois politics will—it must be one or the other.

Fourth, taking another look at the international bourgeoisie's striving to win over China's younger generation, and at the ideological work they have done on young people, does politics take command?

Not long after he resigned from the office, a former U.S. president said: "The Chinese students who come here to study should be regarded as a strategic investment... If we then wait until they become one after another the pillars of Chinese society, we can, through them, progressively lead China's evolution toward capitalism." "Their power will be far superior to that formed by the dispatching of several hundred thousand troops." Palmer, a brain trust figure of the U.S. ruling class, said that students who go to the United States and other countries for study abroad should "be allowed to eat, study, and live in Western homes. In this way there will be not much expenditure for them, and Western ideas can be disseminated to them... The governments of all countries should put out more money for this purpose."

However, our biggest fault over the past 10 years was committed in education. Comrade Li Peng explained it by "pointing to the weakening of the people's political education."

We now take another look back at the instructions given by the revolutionary teachers and by the party's documents concerning the necessity for the proletariat to take politics seriously and to put politics in command.

1. In *Das Kapital* Marx clearly stated that politics is a force that is able "to exert a decisive countereffect on production." Engels said that the economy "is bound to be a countereffect through the relatively independent political movements that it creates itself. This is a countereffect... to the state's power." He also said: "If political power is incapable of acting on the economy, then why should we struggle for the dictatorship of proletarian politics? Violent force (namely, state power) is also economic force!" Politics is the concentrated expression of economics—this is undoubtedly a correct thesis proved over several decades of practice. It is the basis for politics exerting leadership over economics, and the basis for the position that politics can and should take command. However, some people doubt this truth, others forget it, and still others unjustifiably distort and defame it.

2. Comrade Mao Zedong said: "Ideology and politics are also the commander and soul. If ideological work and political work are relaxed in the slightest, economic work



and technical work will take the wrong path." How correctly he spoke! But some people call what he said an "outmoded orthodox concept."

3. Over the past 10 years Comrade Deng Xiaoping has repeatedly reaffirmed the importance of politics. He has said: "When we talk about improving the party's leadership, the main point is the enhancement of ideological and political work." "We certainly must put ideological and political work in an extremely important position." We "must, within three-odd years, restore the function, role, and prestige of political organizations to their level in the Red Army period, War of Resistance period, and Liberation War period." "Without the slightest doubt, schools should always put a firm, correct political orientation in first place." "Politics is the overall situation in the class struggle at home and abroad."

4. The *Communique of the Third Plenary Session of the 11th CPC Central Committee* clearly affirmed the guiding position of the party's leadership, the socialist path, the proletarian dictatorship, Marxism-Leninism, and Mao Zedong Thought. The *Resolutions on Certain Questions in the History of Our Party Since the Founding of the PRC* reiterated that "economics is the base and politics the concentrated expression of economics" and "ideological and political work is the lifeblood of economic work and other work." However, these correct theses are actually criticized intemperately and unjustifiably in the press.

A comprehensive survey of the positive and negative aspects in exposition and practice proves that it is completely correct to insist on politics taking command. In our party's history of several decades, the principle of politics taking command has been effective. Politics comprises three aspects—political entities, political concepts, and political activities—and the state and the political party are political entities. If politics does not take command in a political entity, then why is it necessary to form states and political parties? Therefore, this writer thinks that there is no truth in the idea that there is no need for politics to take command. Based on the fact that in these years "money is sought in everything," people who oppose politics taking command are, in reality, practicing "money takes command." They put money first, depend on money to open doors, and make money the goal. In essence, this is bourgeois politics taking command. Comrade Deng Xiaoping long ago warned: "If each person looks only for 'money,' what is the difference between socialism and capitalism?"

### Song Ping Discusses Cadre Management

91CM0205A Zhengzhou LINGDAO KEXUE  
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[Unattributed article: "Comrade Song Ping Discusses Strengthening Macromanagement of Cadres"]

[Text] Comrade Song Ping, a member of the standing committee of the CPC Central Committee Political Bureau, delivered an important speech on the question of strengthening macromanagement of cadres at a recent symposium

on special topic research by teams and students held for department heads of similar organizations.

Comrade Song Ping stated that in studying the question of macromanaging cadres, the principle of upholding party management of cadres must be taken as an important guiding idea. The principle of party management of cadres is one important aspect of upholding and strengthening party leadership, and is also an organizational guarantee for implementing the party line and general and specific party policies. The type of cadres to be appointed and the type of work delegated to their management is significantly related to our cause. We must use a sequence involving training, observation and study, and selection to ensure that all levels of party and state leadership genuinely grasp what loyalty to Marxism means. This is the basic starting point and stop-over point for the process of strengthening macromanagement of cadres.

One important aspect in strengthening the macromanagement of cadres is the need to strengthen the testing and judging of cadres. Last year's domestic disturbances and wildly changing international political scene made it clearer to many comrades that the struggle between "peaceful evolution" and those opposing it, and the struggle between subversion and those opposing subversion is very real, very intense, and long-term. If this problem is not dealt with properly, the situation could indeed become dangerous. How can this problem be properly handled? The need to properly select cadres according to correct standards is very important. The standards for selecting people must consider political manifestations, particularly whether a person believes in and supports the socialist system, and whether a person believes in and supports the party leadership. These two conditions are key. What is bourgeois liberalization? Bourgeois liberalization is in fact opposition to party leadership and the socialist system, as well as the desire to walk the capitalist road and implement wholesale westernization. In selecting cadres, particularly key leadership cadres, these two conditions must certainly be considered. A cadre's abilities are important, because if a cadre lacks ability or his capabilities are weak, it will be hard for him to handle his work properly. However, a situation where a cadre has ability but no moral character cannot be tolerated, no matter what. Moral character includes many things, most important of which is supporting socialism and upholding party leadership, no matter how grave the situation, upholding the correct political orientation is the most cardinal principle.

In cadre work, select leadership cadres with both political integrity and ability, especially when it comes to key leadership cadres. On the one hand, cadre contingents are very large, while on the other hand the selection of individuals possessing both genuine moral character and ability, as well as all-around work leadership ability, is very small. Therefore, organizational departments must do everything possible to discover, foster, and select persons of outstanding talent. The Cultural Revolution hindered a whole group of people, while yet another group has undergone a period of tempering and testing. Recently, ideological and political

work has slackened, and some cadres have not been tempered at the grassroots level. Selection has been done quite hastily; political requirements have not been paid strict enough attention. There were some cadres who vacillated when encountering trouble, who were swept along during the disturbances and committed mistakes. There are lessons to be drawn from this experience. When selecting cadres, it is necessary to view a wide pool of cadres and discover talented people therein. The cadre management system cannot change; generally it is still management of the next level down, but some testing and judging of cadres can be done down through two levels. Organizational departments must not only manage the leadership cadres of party political organs at the next level down, but should also go to large-scale enterprise units in order to observe and discover talented people. Many of our cadres have come from large-scale enterprises; since the implementation of the reform and opening up policies, even more have come from this source. It has been a hidden gold mine of talent, because many cadres have organizational leadership abilities, master new things quickly, and their political views are quite solid. Organizational departments under the Central Committee and provincial party committees must pay attention to observing cadres at large-scale enterprises and certain major institutions.

There is a process for maturing cadres. One must focus on helping them accumulate practical experience. Presently a rather large number of cadres have a history of education at universities and other institutions of higher learning, but they lack practical experience, particularly grassroots experience. This type of comrade must be placed at a lower level in order to be provided with these missing lessons as quickly as possible. Comparatively young cadres should be sent down sooner and should work for three years; this is especially true for cadres under 40 years of age. A cadre who is quite good in an all-around sense should be placed in the post of county party committee secretary to work for a period; if he handles the work well, he should then work for a period as the deputy secretary or secretary of the prefectural party committee and undergo a very comprehensive tempering. This type of cadre will mature very rapidly. Overall, cadres must be brought up and fostered gradually from the grassroots as much as possible.

I have visited villages on several occasions recently and discovered that the county and township cadres, including tax collectors and credit officers, have been primarily university graduates and demobilized soldiers who were transferred to civilian work, while some very good village party branch secretaries were not selected for these positions. It is not easy to serve as a good party branch secretary in a village. Some party branch secretaries have undergone years of tempering and are quite competent; with a bit of training they would be stronger deputy secretaries or secretaries of village party committees than would inexperienced students. There is also the question of training and selecting cadres from among outstanding factory workers. Comrade Jiang Zemin has said that we must rely wholeheartedly on the working class. Among the contingents of workers, there are many

individuals who have firm political stands, are educated, possess scientific knowledge, and who have very good organizational abilities. China is so large, with a galaxy of talent, however the problem is that we have not been very good at going out and finding this talent. Both rural grassroots levels and enterprises should be viewed as plentiful sources from which to select cadre contingents, although there are certainly other sources. We must create conditions and supply opportunities for cadres working at grassroots levels, so that truly outstanding comrades can rise to leadership positions as quickly as possible. The system used by China's ping pong teams is very good; there are county, provincial, and national teams, and talented people can ascend the ladder step by step, continuously moving to the fore. The present system used by cadres is somewhat inflexible; there is little movement in and out, and it is difficult for new talent to show itself. The Central Committee is preparing to work out a resolution to begin cadre exchanges. Not only will there be exchanges between districts, but also between different work positions. For example, an individual who has worked as an organizational department head for several years could go and serve as head of the propaganda department, or vice versa. An individual who has done party work for several years could also go do government work. Exchanges like this are beneficial in terms of increasing cadre maturity, giving cadres a free rein in their work, expanding their horizons, enriching their experience, and increasing their competence. Organizationally speaking, these exchanges could also offer even better opportunities to discover cadres, and many positions will be properly filled with competent people who can then be promoted. In sum, cadre exchanges are very important.

In training cadres, it is necessary to allow them to undergo tempering while doing practical work, and it is also necessary to train them. Here, party school education is very important. For cadres, especially relatively young cadres, attending the party school system and studying Marxism will be very beneficial to their later maturity. One's world view is shaped during youth, and laying a solid foundation in a down-to-earth manner and truly establishing a Marxist world view will benefit them throughout their life. Young students are also like this. When students enter school they must be given a Marxist education and an education in scientific socialism to help them form and establish a scientific world view. This is something that must be grasped in middle school and really mastered at the university level. The university is an important place for fostering socialist talents, and party and government departments at all levels must take this matter seriously. Provincial, local, and county party schools must all strengthen cadres' theoretical training and enable large numbers of cadres to maintain a correct political orientation. One major task of organizational departments is to properly select and train cadres, enabling large numbers of cadres to unswervingly implement the party line, and general and specific party policies and to not become confused and lose direction during a complex struggle.

Reform of the cadre management system is interlinked with reform of the entire economic and political systems. The management limits of authority of cadres transferred to lower levels and of people and affairs are closely related, and they condition each other in a rational manner. It appears that the general trend has been pretty good, although it is necessary to uphold the principle of party management of cadres. At present, the three forms of cadre management (Central Committee departments have primary responsibility and local party committees have secondary responsibility; local party committees have primary responsibility and Central Committee departments have secondary responsibility; local party committees handle management) must be properly integrated. This thing must be handled well, no matter how the individual pieces are integrated or coordinated from above and below. Some stipulations and standards can be worked out based on in-depth research. Whether it is Central Committee departments or local party committees that appoint cadres, the party with primary responsibility must solicit the opinion of the party with secondary responsibility. For example, many cadres managed by departments are scattered over many localities, and some situations are difficult to understand clearly. With cadres beyond the reach of authority, management must be handled well and must not deviate from the local party committee. For departments managing cadres directly, it is also necessary to attend to and heed local opinions when observing, studying, and appointing cadres.

#### Stratified Analysis of Marx's Socialist Theory

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[Article by Sun Daiyao (1327 0108 1031), Marxism-Leninism Institute, Beijing University; Li Shen (2621 3947), responsible editor: "Stratified Analysis of Marx's Socialist Theory"; footnotes as published]

[Text] Reform in socialist countries takes the scientific socialism of Marx as its theoretical framework and its base. But Marxist socialism is a cornucopia of ideas. A failure to delimit its boundaries scientifically often gives rise to a string of theoretical confusion and practical errors. To remove this danger, we need to conduct a stratified analysis of Marx's socialism. Only by mastering Marx's ideas overall can we resolve the series of problems in theory and practice.

#### I

Marx's wealth of ideas on socialism can be grouped into three strata, from top to bottom. At the first stratum is methodology; the second, objectives; the third, specific characteristics.

The methodology with which Marx analyzed socialist society was none other than historical materialism. Engels brilliantly summed up how he and Marx used the methodology to analyze the characteristics of future society. "Our views on the distinctions between the future noncapitalist society and society today are derived from historical facts and the development process. If we depart from these facts and the process, they

will have no theoretical or practical value."<sup>1</sup> This embodies the two most important principles in Marxist methodology. First, proceed from facts, not concepts. Second, approach everything with a historical attitude, study everything from the perspective of development. Engels said, "Our theory is not dogma, but an elucidation of a development process consisting of a series of interconnected stages."<sup>2</sup> This is because facts themselves constantly evolve and change. The founders of scientific socialism believed that future society would evolve constantly. At no point did they put forward a social system that was absolutely perfect and set for all time.

About the second stratum, Marx and Engels repeatedly proved that if man is to be fully liberated, private ownership must be abolished and means of production must be socially owned when the development of productive forces reaches a high level. What they called the social ownership of means of production is not so much an end as a means. The real end is the free and all-round development of every individual. In a letter to the editorial department of FATHERLAND CHRONICLE magazine in 1877, Marx gave this classic description of future society, "Socialist society is an economic formation that ensures both social productive forces of a highly developed order and the most all-round development for man."<sup>3</sup> Here Marx points out the two major goals future society should achieve, namely the development of productive forces and the development of man. We may call the former a "scientific goal," the latter a "value goal."

At the third stratum is the analysis by Marx and Engels of the tangible characteristics that distinguish the future society from capitalist society. In *Socialism: Utopian and Scientific*, Engels summed up the characteristics thus: 1) social ownership of means of production, thereby enabling the social nature to develop fully and freely; 2) social production in accordance with a predetermined plan; 3) the disappearance of classes; 4) the withering away of the state; 5) man finally a free man. In the opinion of Marx and Engels, most of these characteristics were applicable to the first stage of communism.

In *Critique of the Gotha Program*, Marx divided communism into several stages depending on the degree of economic maturity and discussed at length the characteristics that distinguished the first stage of communism from other, higher stages. He pointed out, "While means of production in this society is already socially owned, it still bears traces—economic, moral, and spiritual—of the old society of which it was born." Conditions that compel people to subordinate themselves to division of labor like slaves have not disappeared. So the distinction between mental labor and manual labor has not been eliminated. Labor remains a means of subsistence and is not yet the first need of living. The individual has not yet achieved all-round development. All the sources of collective wealth have not been fully cleared. Thus, distribution in accordance with labor is the only option. Conditions are not yet in place for "from each according to his ability, to each according to his need."



## II

After conducting a stratified analysis of Marx's socialist theory at the macroeconomic level, we can examine the significance of adhering to and developing Marxism at the present stage by analyzing the stability of the various strata.

Generally speaking, of the three strata, the higher the stratum, the greater the stability, the lower the stratum, the less stability.

As the highest theoretical stratum, the methodology used by Marx to analyze socialist society seems most stable today. Historical materialism is the most valuable thing bequeathed by Marx to posterity, the theoretical base of scientific socialism, and of all three strata, the one that we need to uphold most. When we say "with Marxism as our guide," we actually mean we must apply the principles of methodology to society and review the historical experience of socialist construction. There is just no other way. If we depart from Marxist methodology, we will inevitably misinterpret and dogmatize the theses involved even if we quote Marx and Engels verbatim.

Certainly, the Marxist methodology is capable of growth instead of being carved in stone. Engels said, "Historical materialism necessarily has to change its form in line with every epoch-making discovery in natural science."<sup>4</sup> Accordingly, we must today examine and develop historical materialism in practice even as we abide by Marxist methodology.

The second stratum of Marxist system also appears quite stable today. Past errors in socialist practice were caused precisely by our failure to ignore these two objectives to varying extents, particularly the value objective. Marx said that highly developed productive forces were the precondition for the free and all-round development of every individual. And the mode of production and mode of distribution most favorable to man's all-round and free development are also the most favorable to the development of productive forces. As science becomes direct productive forces, labor in its direct form will no longer be an enormous source of wealth. By that time, the massive cornerstone of production and wealth will not be the direct labor completed by man, but the development of the social man. When man no longer considers production itself the end, but the development of the ability of man himself, then the true era of freedom will have begun. That is why in *Das Kapital* Marx referred to future society as an "association of free men" or a "social form whose basic principle is the free and all-round development of every individual."<sup>5</sup> We can thus see that in Marxism, the development of productive forces is the basis and the means of realizing the socialist value objective. Deviate from the development of productive forces and human development would be mere fantasy. The realization of value objective is the ultimate goal of the development of productive forces. Deny this and we will fall into the quagmire of production for production. Having made this discovery, we must emphasize the development of man even as we stress the development of productive forces. Needless to say, this stratum too needs to be refined and amplified in practice.

Socialist nations must put forward their own feasible concrete objectives and methods to achieve such objectives in light of their disparate national conditions in different historical stages.

Looking at it today, we see that the third stratum in Marxist socialism contains both ideas of scientific value as well as simplified idealized stuff. This is so because Marx derived his vision of the concrete characteristics of future society from scientific abstractions. Socialism had not yet been transformed from ideal into reality in the lifetime of Marx and Engels. Given the conditions at the time, the task of scientific thinking was limited to cutting through the thicket of detailed complex factors and stages and, through scientific abstraction, identifying the direction of development in accordance with the general trend and overall demand of the development of social productive forces as well as the inherent contradictions of the capitalist mode of production and the general principles of economic operations. To analyze the general principles of true social development, Marx abandoned the formation and development process of socialist society in *Critique of the Gotha Program* and envisioned a pure socialist society to illustrate the most typical characteristics of such a society. Between scientific abstraction and the tangible is a series of intermediate stages which necessarily vary enormously from country to country. If we try to skip these intermediate stages and equate the detailed process with a scientific abstraction, we will unavoidably fail in practice and be confused in theory.

Engels said, "When things and their relationships are not regarded as frozen but as things that can change, the way they are reflected in concepts and ideas will necessarily change and evolve. We must not confine them to a rigid definition. Instead, we must carefully explain their historical or logical formative process."<sup>6</sup> Unfortunately, posterity often searches the works of Marx and Engels in a vain attempt to find a permanent model for socialist society, not knowing that what they envisioned must be made concrete through practice. Thus, future generations could not but show an impatience for success and purity, and make other similar mistakes in practice.

By and large, things in the third stratum of Marxism that have scientific value must continue to be adhered to even today. As for its more idealistic assertions, we need to work out their details in practice, testing and revising them. Engels had stated at an early point that if their views on the characteristics of future society were isolated from the historical facts and development process on which they based their conclusions, they would have no theoretical or practical value at all. What we are doing today—examining, supplementing, and developing Marx's theory on the tangible characteristics of socialism in the course of the practice of socialism using the methodology he put forward—is entirely in line with Marxism.

## III

The 13th National Party Congress has assigned to us the important task of "rethinking" socialism in the present



stage. The rethinking of socialism embodies the integration of the upholding of Marxism with the development of Marxism. On the one hand, "rethinking" means we must use the Marxist methodology as our guide and, with the two objectives of Marxism as our point of reference, eliminate the accretions to Marxist socialism and to the essential properties of socialism. To rethink Marxism is to uphold Marxism, or, to put it in another way, to "return to Marxism." On the other hand, we must reexamine and review all the strata in Marxist socialism, using practice as our criterion. To rethink Marxism is to develop Marxism.

The practice of socialism today demands that we develop Marxism even as we uphold it. We should use Marxism as our steadfast guide, but the purpose is not to follow vulgar empiricism, but to provide a basic guarantee that there would be no utopian mistakes in socialist construction. The string of theoretical and practical errors made by socialist countries over many years occurred precisely because the countries have departed from the basic starting point of Marxism. In China such deviation manifested itself most strikingly as talking about socialism in isolation from productive forces. For instance, in deciding the stage of socialism Chinese society is in, we at one point turned our backs on the basic criterion of productive forces and tried to effect the transition to communism despite our backward productive forces. Our understanding of socialism was such that we often lost sight of the level of productive forces and the demands of development. Instead, we evaluated life with abstract principles and rejected as "capitalist restoration" many things favorable to the development of productive forces. We can thus see that the string of utopian errors we have committed were all caused by divorcing ourselves from the scientific methodology of Marxism. We cannot, as some people do today, blame them on the so-called "utopian elements" of Marxism or the "utopian" original sin.

Moreover, Marxism is a developing science that is constantly being enriched as history and science advance. It provides only a "starting point for further research and a method to be used in such research," not a "ready-made dogma."<sup>9</sup> Because of Marx's discovery of historical materialism and the theory of surplus value, Engels pointed out again and again, socialism became a science, but it was still left to future generations to "further study the details and connections of this particular science."<sup>10</sup> This is because like any science, the socialism of Marx and Engels are subject to the constraints of time and practice. As Engels said, the theoretical thinking of any particular era is a legacy of history. "We can understand only under the conditions of our time, understand as much as conditions allow."<sup>11</sup> History always turns out to be more complicated and more mercurial than foreseen by the most brilliant and visionary thinkers. If we remove ourselves from the conditions of the time and hold every single word uttered by Marx as the absolute truth and put it into practice, we are bound to commit utopian errors.

Some of Marx's conclusions may not be directly practicable even if they conform with historical trends. If we are impatient for success at a time when conditions are nonexistent, our ideals will become fantasies. The socialist ideals of Marx and Engels had their particular set of circumstances. If we look at just the form, utopian socialists had already expressed some theses in an idealized form. The new contribution of Marx and Engels is that they related socialism to a specific set of social and economic conditions and examined the possibility, inevitability, means, and methods of achieving it. For instance, the social ownership of means of production was the "formula of the requirement of economic transformation" summed up by Marx and Engels, the ideal of the future new society.<sup>12</sup> "However, this kind of ownership becomes possible and historically inevitable only when the material conditions necessary for its realization are in place."<sup>13</sup> People who transplant this theory mechanically, with no regard for differences in historical conditions, to an economically backward socialist nation and try to put all means of production under social ownership at the present stage are turning a Marxist ideal into fantasy. Needless to say, this is not an error by Marx, but the outcome of the unscientific attitude of some people in handling certain concrete conclusions.

Some Marxist theories were correctly derived from a specific set of historical facts and a specific development process. As the facts and process change, the theories would become something with only historical value. If we do not study and analyze them in detail in the historical context but try to make them transcend differences in space and time, we will inevitably produce utopianism in practice.

Some of the theories of Marx and Engels were derived from the premises of their opponents in debate and were intended to refute their arguments. Since the premises were false, the conclusions derived therefrom had no practicality, even though they were logically true. Engels argued that currency served as labor stock in disguise in exchanges within a commune and that currency was not needed in inter-commune exchange. This conclusion was based on Duhring's "economic commune." He took pains to "remind the reader often that we are not at all trying to design the future edifice here. We are mainly applying Mr. Duhring's supposition and draw the unavoidable conclusion therefrom."<sup>14</sup> If we fail to carry out systematic historical examination and analysis and instead quote a statement here, a statement there, and put the conclusion into practice with no reference to their presuppositions, we will inevitably err by making an irrelevant comparison or by improperly substituting one thing for another.

We can thus see that if we are to deal scientifically with Marx's theory, we must firmly discard vulgar empiricism and dogmatism, two unscientific methods of thinking. Both methods of thinking are present to varying extents in theoretical and practical work and frequently hamper the smooth progress of socialist construction. If society at large fails to achieve a consensus on the danger, not

only will the task of adhering to and developing Marxism be complicated, but we will go down the same disastrous road of utopianism a second time.

On the issue of adhering to and developing Marxism, Lenin with his scientific attitude set an example to be emulated by future generations. In all his revolutionary activities, Lenin remained a staunch Marxist. He said that only by becoming a "modern materialist and a conscientious supporter of the materialism represented by Marx can one persistently struggle to oppose the 'invasion of bourgeois thought and acquire objective knowledge relating to the world.'"<sup>15</sup> In Lenin's eye, any departure from basic Marxist principles is an outright betrayal of Marxism, of the interests of the proletariat and all working people, and of the interests of scientific socialism. Hitting out at behavior that betrayed Marxism, Lenin stressed, "We fully base ourselves on Marx's theory because for the first time it has turned socialism from fantasy into science, put it on a solid foundation, and points to the road we must follow to continue to develop and study this science closely."<sup>16</sup>

Yet as Goethe said in a famous remark, one which Lenin was given to quoting, theory is grey, while the tree of life is green. That is why Lenin "never made excessive demands on Marx."<sup>17</sup> Nor did he at any point regard Marx's teaching as something carved in stone, a dogmatic collection of fixed formulas and principles. He wrote in 1899, "We absolutely do not consider Marxist theory immutable, sacred, or inviolable. On the contrary, we are convinced that what it did was only to lay the foundation for a science. If socialists do not want to fall behind real life, they should advance this science on all fronts."<sup>18</sup>

Lenin explained that Marxism is real-life teaching that has to do with development in the real world. As such it cannot but evolve creatively and constantly. What an authority says is correct under some circumstances but may not be correct under other circumstances. The whole spirit of Marxism and its entire body of thought, therefore, demands that we examine every tenet in the context of a specific set of historical experience. If we overlook changes in the circumstances and "remain wedded to old Marxist solutions, then we would be faithful only to the words of his teaching, not the spirit."<sup>19</sup>

This year marks the 120th anniversary of the birth of the great Lenin. No doubt the best way to remember him is to study and grasp his scientific attitude toward Marxism in earnest. We close this article by recalling deeply this great teacher who remained steadfast to, enriched, and furthered Marxism.

#### Footnotes

1. *Complete Works of Marx and Engels*, Volume 36, pp. 419-420.
2. *Selected Works of Marx and Engels*, Volume 4, p. 459.
3. *Complete Works of Marx and Engels*, Volume 19, p. 130.

4. *Selected Works of Marx and Engels*, Volume 4, p. 224.
6. *Complete Works of Marx and Engels*, Volume 25, p. 17.
8. *Selected Works of Marx and Engels*, Volume 3, p. 67.
9. *Complete Works of Marx and Engels*, Volume 20, p. 585.
10. *Ibid.*, Volume 22, p. 593.
11. *Selected Works of Marx and Engels*, Volume 3, p. 321.
12. *Ibid.*, Volume 3, p. 342.
13. *Selected Works of Lenin*, Volume 4, p. 609.
14. *Complete Works of Lenin*, Second Edition, Volume 4, p. 160.
15. *Ibid.*, Volume 32, p. 111.
16. *Ibid.*, Volume 4, p. 161.
17. *Ibid.*, Volume 7, p. 222.

#### Roles of Party, Union, Director in Enterprise Management

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[Article by He Guiyuan (6320 6311 0337) and Shang Haigen (1424 3189 2704): "A New Attempt To Iron Out Relations Between Party, Government, and Trade Union Organizations in the Enterprises"]

[Text] Finding ways to better regulate the activities of party, government, and trade union organizations in the enterprises and to iron out relations between the three, is an objective demand posed by the need to perfect the leadership system and contractual management system in enterprises. At present, the start of a new round of concluding enterprise management contracts provides an excellent opportunity to resolve this issue: how are we seizing this opportunity to further iron out relationships between the said three parties? The system of "two contracts, one written undertaking" adopted by the city of Jincheng may perhaps be found acceptable as a possible solution.

In implementing the "two contracts, one written undertaking" system, the administrative leadership team, headed by the plant director (manager), collectively contracts to operate the enterprise; the plant director (manager), as legal representative of the enterprise, signs a contract with the government organ that is effecting the contractual transfer and that is thereby conveying to the plant director (manager) all the legal rights that he is to enjoy according to the Enterprise Law. At the same time, the chairperson of the labor union, representing the entire body of staff and workers, after due discussion and approval by the staff and workers representative assembly, signs a "contract of mutual guarantee," whereupon "contracts of mutual guarantee" are also signed

between workshops and work teams on one side, and the trade union branches and teams at the various levels on the other side. In addition, the party committee of the party organization that is one level higher than the enterprise concerned will transmit down to the secretary of the enterprise party organization a written undertaking of objectives to be achieved by the party during the term of the enterprise contract.

In the new round of enterprise contracting, the contracting leadership team, consisting of the plant director (manager), the deputy director, and three senior engineers, will collectively assume all contractual obligations; it will not be a partnership arrangement of party, government, and trade union. The purpose of doing it in this way is: First, to preserve the system of plant director responsibility, to ensure that the plant director occupies the core position in production and business operations. Second, to have party, government, and labor union each assume its proper position and each exercise its proper functions. Third, because it will facilitate the enterprise party organization exercising its supervisory function, will avoid having a "government-run" labor union, and because it will be beneficial toward improving the relationship between the party and the masses and toward affirming staff and workers in their position as the primary component.

The party committee's written undertaking of achieving objectives has the purpose, according to the "Regulations Governing Work at Grassroots-Level Party Organizations in Enterprises," to bring the political core function of the party organization in enterprises fully into play, and to strengthen the party secretary's awareness of his responsibilities. It is a transmission in written form from the party organization one level higher than the enterprise concerned to the enterprise party committee, communicating the responsibilities for tasks which are to be the objectives during the term of the contract. It will contain economic objectives that are identical with the economic and technical norms of the contracting administrative leadership team, and will also contain the qualitative and quantitative objectives of party work, which the party committee must carry out to ensure accomplishment of the contract norms; it will contain the position, responsibilities, and authority of the party secretary and also contain specifics on work assessment and reward and punishment methods.

"Contracts of mutual guarantee" are concluded on the basis of a clear understanding of the relationship between state and enterprise. They further clarify the relationship between enterprises and staff and workers, mobilize the enthusiasm of both sides, management and workers, ensure accomplishment of the objectives of the business operations contracted for, properly treat the relationship between the core position of the plant director and the position of the masses of staff and workers as actual masters, establish a mutually restraining mechanism in an entity of common interests in which responsibilities, risks, and benefits are equally shared. The main provisions of the "contract of mutual

guarantee" include specifics of mutual contractual guarantees between enterprise management and labor union, their mutual rights and obligations, contract evaluation, rewards and penalties, contract amendment and termination, responsibility for contract violations, and arbitration of contract disputes.

The "two contracts, one written undertaking" system causes the three parties, the party, the government, and labor, to truly establish in the form of written agreements a working relationship of mutual independence, but also of mutual linkage, mutual restraints, and of complementing each other's endeavors. The system creates a self-restraining mechanism with an organic integration of responsibility, rights, and benefits and sensibly regulates the administrative actions of the three parties concerned. The superiority of the system mainly manifests itself in the following characteristics:

**A. Achieving a Joint Advance—As If They Were One—Of the Three Bodies, Party, Government, and Labor, to Their Assigned Positions; "Three Minds" Merging Into One**

One of the defects that became apparent in the practice of the first round of contracting was that insufficient consideration had been given to achieving a well-balanced state in the system composed of party, government, and labor; that there was no pressure or hard restraints on either the party committees or on the labor unions; and that there was incongruity of benefits and risk responsibility as between plant director (manager), party, and the labor union; so that when an enterprise was profitable the party secretary, the chairperson of the labor union, and the plant director (manager) enjoyed the fruits of "victory," but when the enterprise incurred losses or went bankrupt, the party secretary and the labor union would refuse to accept administrative or economic responsibility, occurrences which were apt to dampen the enthusiasm of plant directors (managers) to enter into management contracts, to lower the prestige of the party committee among the masses, and to debase the position of staff and workers as masters in their own right.

The "two contracts, one written undertaking" system gave specific form to the distinct tasks and objectives of party, government, and labor union by formal written agreements and united the minds of all concerned in a concentrated effort to promote production and good business management, each party fulfilling its assigned duties and all jointly ensuring fulfillment of their contractual objectives.

1. Jointly bearing pressures. As one of the provisions in the "contract of mutual guarantee" the labor union guarantees to the plant director (manager) and the administrative leadership team that "it will mobilize staff and workers to fulfill, in reliance on their joint efforts, all economic norms and tasks undertaken by the enterprise in its contract with the government." The written undertaking by the party committee to achieve the objectives makes the economic norms, which the administrative leadership team had accepted in the contract, a part of the party committee's work objectives.



In this way it will be avoided that all contractual responsibilities will be disjointed and split between party, government, and labor union, and will place responsibility and pressure on the party secretary and the chairperson of the labor union as well.

2. Jointly shouldering risks. The "contract of mutual guarantee" stipulates that the chairperson of the labor union shall deposit a certain amount of risk security with the staff and labor representative assembly. In this way, benefits and risks will be equally distributed, will bind the three parties more closely together, and will at the same time arouse work enthusiasm in all three parties concerned.

3. Equal sharing of benefits. The "contract of mutual guarantee" stipulates: "If the contractual norms and the objectives guaranteed by the labor union have been fully accomplished, the chairperson of the labor union shall receive full reward"; for each item of the guaranteed objectives remaining unfulfilled, 10 percent shall be deducted from the security deposit. The "written undertaking" stipulates: "If all contractual norms have been fulfilled, the annual income of the party secretary can be raised to double the average staff and worker income. If profits exceed 15 and 25 percent, his annual income may be raised to 2.5 and 3 times the average staff and worker income. If the contractual norms have been fulfilled, but the evaluation targets that should have been met within the work objectives have not been fulfilled, a corresponding percentage shall be deducted from the reward payment." In this way an increased restraint is placed on benefits, and the drawback of a division of responsibilities and benefits among the three parties involved is eliminated, and in the distribution, the principle of receiving rewards "by virtue of official position" is changed to receiving rewards "commensurate with responsibilities fulfilled" for all those in charge of these matters in party, government, and labor unions. Thus, the principle of "sharing equally good fortune as well as adversities" is truly realized, and the psychological tolerance of staff and workers is strengthened.

#### **B. Reinforcing the Political Core Position of the Enterprise Party Organization, Strengthening Ideological Political Work, and Building a Spiritual Civilization**

During the first round of contracting, some localities made light of the political core position of the enterprise party organization. In addition, the party organization above the level of the enterprise concerned neglected to firmly restrain the soft norms for the work of the enterprise party committee (party branch), which weakened the building of some enterprise party organizations and weakened ideological political work. The written undertaking of the party committee to achieve objectives clearly prescribes with regard to the status of the enterprise party organization that "the party committee shall strictly uphold the principle of party control of all cadres, shall strengthen overall control of enterprise cadre personnel affairs, and shall attend to the training, education, inspection, and supervision of all enterprise cadres." It also demands as an obligation of party committees that

"the party committee shall formulate an overall plan for building spiritual civilization in the enterprises during the terms of their contracts, also for ideological political work, an annual plan for party work, and ensure that work will proceed with proper designation of tasks, proper substantial content, according to proper rules and regulations and according to appropriate methods and with proper evaluations." As to the coordination of party and government work, the "written undertaking" furthermore demands that "the party committee shall every quarter or every half year listen to a work report by the plant director, and shall solicit suggestions in a variety of ways from the masses of staff and workers for rationalizations. The party committee shall earnestly study all major problems faced by the enterprise and shall submit opinions and suggestions as to the workings of the enterprise. It shall respect and support the legal rights of the plant director (manager), support the labor union organization in its independent and responsible undertakings." In this way, not only will enterprise party organizations be given their rightful place as the political core, but this will also consolidate such soft norms as ideological political work, the buildup of the spiritual civilization, and party building, and thereby ensure that all enterprises will energetically pursue the buildup of the "two civilizations" within their domain.

#### **C. Emphasizing the Position and Role of Staff and Workers as Actual Masters of the Enterprises, Enhancing Democratic Management in Enterprises, Helpful Toward Building Up Enterprises as Entities of Common Interests**

The "two contracts" system accomplishes the unity and realization by formal agreements of the core position of the contractual managers of the enterprise and the status of staff and workers as actual masters. It brings about the smooth and sincere cooperation of management and production workers, creates an entity of common interests and of shared honor and disgrace, and effectively overcomes the phenomenon of "inversion of subject and object" as it also prevents actions from being taken based on the principle of "power is above everything else."

1. The "two contracts" system has raised the awareness of all enterprise staff and workers that they participate in all production and business operations of the enterprises, thus enhancing their status as actual masters. Prior to the signing of "contracts of mutual guarantee," the contractual managers shall, at some time in advance, submit the production and business objectives of the enterprise during the contract term, the developmental prospects, and items concerning improvement of livelihood and welfare to the staff and workers for discussion, thus increasing openness in the conduct of all enterprise work. Before signing the management contract, the plant director (manager), as representative of the administrative leadership team, must have the intended contract checked and approved by the staff and labor representative assembly, and may only thereafter sign the actual contract with the government organ that will effect the transfer of the management of the enterprise according to contract.

2. The "contracts of mutual guarantee" further specify and institutionalize all mutual rights and obligations. The "contracts of mutual guarantee" stipulate that "the plant director (manager) is in full command and determines production and business operations; he is to be fully responsible for and obliged to attend to the building of the 'two civilizations.' He is authorized to determine according to law the specific methods by which the contract objective is to be realized, and has the right to reject irrational demands that would adversely affect the realization of the management contract." At the same time, the plant director (manager) and the contracting leadership team guarantee to their staff and workers that they will "attach importance to the building of the labor union organization, will provide running expenses for labor union activities, will always submit twice a year to the staff and labor representative assembly for deliberation and approval: working reports, enterprise business policy, long-range and annual plans, major plans for technological transformation or for technological imports, plans for staff and worker training, financial final accounts, plans for the distribution and use of free funds, etc. The administrative leading cadres of the enterprise and cadres of intermediate rank shall once a year make a verbal report to the staff and worker representative assembly. The contracting leading team shall at least twice a year hold democratic consultations with the staff and worker representatives. At the end of the year, plans for contracting and for paying rewards and imposing penalties must be examined and approved by the staff and worker representative assembly," etc. If the plant director (manager) or the administrative leadership team seriously infringes on the democratic rights of staff and workers, or if more than half of the guaranteed provisions remain unfulfilled, "the staff and workers representative assembly has the right to call a general meeting of all staff and workers and have them formulate a resolution, requesting the government to remove the plant director (manager) from office and to appoint a new legal representative for the enterprise." Similarly, sanctions may be imposed if the labor union, while protecting the position of its staff and workers as actual masters, cannot fulfill the provisions it had guaranteed to the plant director (manager) and the administrative leading team. Such guarantees have been "to

mobilize the staff and workers to achieve, relying on their joint effort, fulfillment of all economic norms undertaken by the enterprise in its contract with the government; to uphold the plant director (manager) responsibility system; to support and respect the director's (manager's) administrative decisionmaking rights and supreme authority in matters of production and business operations; to encourage staff and workers to submit suggestions; to periodically solicit rationalization suggestions from staff and workers; to give proper attention and properly deal with letters from or visits by staff and workers; to launch work competitions; to create favorable conditions for active democratic consultations between the plant director (manager) and worker representatives; to have every quarter, but at least twice a year, a meeting of the plant (corporation) leadership with the masses of staff and workers," etc. "In cases seriously contravening the will of staff and workers, infringing upon the legitimate rights and interests of staff and workers, or if more than half of the guaranteed objectives remain unfulfilled, the plant director (manager) shall have the right to propose to the labor union that it call a general meeting of all labor union representatives in advance of regular times, to remove the chairperson of the labor union from office." This shows that a system of mutual impeachments will effectively ensure the implementation of the "contracts of mutual guarantee."

3. "Contracts of mutual guarantee" at the various levels mold the enterprise into an entity of common interests. In the enterprises, all levels from plant director (manager), chairperson of the labor union, cadres of intermediate rank, down to workshops and work teams, will have to sign "contracts of mutual guarantee" and, in addition, will have to deposit a certain amount of risk security. Moreover, "contracts of mutual guarantee" stipulate that there shall be a direct linkage between the economic interests of personnel at all levels and the economic efficiency of the enterprise concerned, and that each level shall schedule its own rewards and penalties. In this way, risks and benefits will be equalized, and with respect to the common interest, contractual managers and production workers will become closely tied together in the prosperity or decline of the enterprise; as a consequence, the enterprise will become molded into one entity of common interests.

## NATIONAL AFFAIRS, POLICY

**Economic Policies, Causes of Poor Results**

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[Text] Effects of industry policies refers to the actual results of implementing certain industrial policies. If the actual value arising from the implementation of industrial policies is consistent with the value expected in the process of formulation of such policies, there is no need to conduct any more analysis on the effects of industrial policies. However, the focal point of the issue is that in reality, the effects of industrial policies are often inconsistent with those expected by us. In other words, the effects of industrial policies are deviated. Under certain circumstances, it is possible that the effects of such policies are better than the expected value. In most cases, however, the situation is just the opposite, or there is even the adverse phenomenon where the effects show that they go against the expected value.

**I. Deviation of Effects of Industrial Policies, and Patterns Concerning Normal and Abnormal Theories**

The deviation of effects of industrial policies is a complicated phenomenon of policies. We must neither vaguely regard it as an inevitable phenomenon in the implementation of industrial policies, nor take it without careful examination as another abnormal phenomenon of policies. I hold that we must specifically analyze such phenomenon, and distinguish natural deviation resulting from the implementation of policies from the man-made one. Only thus can we make a correct judgment on, and find out the specific causes for, such deviation of the effects of industrial policies that have actually taken place.

By the term natural deviation of effects of industrial policies, I refer to the inevitable deviation of actual value from the expected one as a result of the process of implementation of such policies. To a very large extent, such deviation is determined by the nature of such policies. Effects of industrial policies should be the result of the process of policymaking; whereas the process of policymaking always takes place in a specific time and space. Therefore, a study on the natural deviation of effects of industrial policies may be made in terms of time and space.

**(1) Time-structure deviation of effects of policies.**

Any given industrial policy must have its process in terms of time. I divide such a process into four stages: (1) the stage of introduction (trial implementation); (2) the stage of perfection; (3) the stage of maturity; and (4) the stage of degeneration. Obviously, the actual results of implementing an industrial policy are different among these stages. Generally speaking, effects arising from stages (1) and (4) are not

so good, while those arising from stages (2) and (3) are much better. Thus, in the process of implementing industrial policies, there exists deviation of policies in terms of stage. I define such deviation as time-structure deviation of effects of policies.

It is inevitable that the extent of deviation of a given policy is much wider at the stage of introduction. This may be caused by the following factors: (1) the newly introduced policy itself is yet to be perfected; (2) there is interference from the previous ways of doing things because of the old policies; (3) people still do not thoroughly understand the new policy; (4) the functioning mechanism of the new policy is yet to be effectively operated; and (5) coordination is yet to be made with other economic policies. Since it is necessary to coordinate the newly introduced industrial policies at this stage with various related factors, it is inevitable that there is deviation of effects of policies. In the wake of revision and augmentation of the policies themselves, weakening latent influence of old policies on them, thorough understanding of the new policies by the people, perfection of the functioning mechanism of the new policies, and their continuous coordination with other economic policies, the implementation of such policies will be constantly perfected and the extent of deviation of policies will be narrowed. After the implementation of policies enters the stage of maturity, its actual effects become almost the same as, or even exceed, the value expected in the process of policymaking. This situation will continue for a certain time. After then, the implementation of policies enters the stage of degeneration because of the diminishing effects of such policies, and the emergence of new things or the development of the situation (that is, in the language of Ding Bogen [0002 0130 2704] in his model of economic policymaking, the item of initiative is almost found in every formula). The extent of deviation of policies at this stage will be remarkably widened. Undoubtedly, this is an inevitable result that such policies have become outdated. Thus, we can see that this kind of stage-wise deviation of effects of policies emerging in the implementation of such policies is a natural phenomenon, and is basically normal. Unless there develops the situation of "policy synchronous shock," that is, the perfection of policies is rather slow and the stage of maturity is very short, those policies that have reached maturity will enter the stage of degeneration. There are certain problems contributing to this kind of stage-wise deviation of effects of policies, which is an abnormal one.

**(2) Space-structure deviation of effects of policies.**

Inevitably, the implementation of any nationwide industrial policy is done in an imbalanced space. This kind of imbalanced territorial development is mainly reflected by differences in the distribution of productive forces, in the economic and social environments, in material and technology basis, and so forth. All these yield different effects of policies in various localities. I define such imbalanced effects of policies (that is, partial deviation



of effects of policies) yielded by the implementation of a particular industrial policy as space-structure deviation of effects of policies.

The space-structure deviation of effects of policies is also a natural phenomenon. This is because the formulation of a particular nationwide industrial policy is made on the basis of the general state of industrial development as a whole at a given time. What it intends to solve are the generality of problems. Therefore, when the state formulates industrial policies, it only puts forward general measures for, and objectives of, solving problems regarding the industrial development, and only aims at the generality of policy problems. Likewise, in considering the effects of policy, the policymakers only focus on its general influence and consequences. Nevertheless, because of imbalanced territorial development, it is not necessary that policy problems identified from the perspective of the overall situation exist, or the extent of such problems is the same as those, in a particular area. Besides, given a particular policy problem, the causes for such a problem from an overall perspective may even be different from that of a local one. Therefore, an industrial policy with overall perspective will, in the course of implementation, yield regional differences in terms of effects.

It is inevitable that in the implementation of policies, there is the space-structure deviation of effects of policies resulting from this kind of difference of the generality of policy from specific local problems. When proceeding from this viewpoint, it is basically normal. Of course, this completely rules out the human factor. It will be another question if there is a partial deviation of effects of policies because of the quality and behavior of those persons who execute them, and so on, and this must not be taken as a normal phenomenon.

The above explanation on the natural deviation of effects of industrial policies is made subject to three preconditions: (1) such industrial policies are basically correct, (2) the behavior of those persons who execute such policies is correct, and (3) the policy object has a better quality. Only when we strictly follow such restrictions can it be possible for us to build a theoretical model for the natural deviation of effects of industrial policies. On the basis of the above-mentioned theoretical model, let's analyze the man-made deviation of industrial policies by introducing such restrictions.

Just as its name implies, the man-made deviation of effects of industrial policies refers to the deviation of actual effects from the expected value caused by human factors in the process of implementation. It is mainly reflected by an overall deviation, that is, the emergence of general deviation of effects of policies throughout the entire policies.

#### (1) Time-overall deviation of effects of policies.

In reality, it is highly possible that in the process of implementation, the actual effects yielded by an industrial policy deviate from start to finish from the expected value of such policy, or that such policy even fails to

yield any actual effects. I define such situation as time-overall deviation of effects of policies. There are many factors contributing to the emergence of such overall deviation, and their manifestation of such deviation is different. (1) The policies formulated do not tally with realities, and the expected value is set too high. Specifically, this situation is mainly manifested by two aspects. First, there is a difference in the level of tolerance of the object's mentality, so that the policies are not adapted to. Second, the policies lack strong and powerful measures, so that they become nonoperational. (2) The behavior of persons who execute the policies is deviated, and the implementation of policies faces obstacles. Under the circumstances where the power is decentralized, and where an effective guarding mechanism is lacking, it is possible that the behavior of those who execute the policies is deviated, so that there develops the phenomenon that "whenever there is a measure from above, there is always a counter-measure from below." (3) The policy object does not have the proper quality, so that the effects of policies decline. Even though the relevant industrial policies are beneficial to the object's interests, the object, under the circumstances that it does not have a good quality, only takes an inactive and passive attitude toward the policies, thereby forming a latent obstacle to the implementation of such policies, and adversely affecting the effects of policies.

#### (2) The space-overall deviation of effects of policies.

If the implementation of a particular industrial policy in all those unevenly developed areas fails to yield any actual effects consistent with its expected one, this kind of deviation of effects of policies is space-overall deviation. Causes for the formation of such deviation may also be analyzed from the perspective of policy formulation, that of the subject of policy execution, and that of the object. From the perspective of space, policymaking and formulation are synonymous, whereas the subject executing such policy is always different from the object in terms of locality. Therefore, no matter what human factors cause the space-overall deviation of effects of policies, the actual effects of policies generally deviate from their expected value, only that the extent of deviation varies from locality to locality. The extent may be greater in certain localities, while it may be smaller in others. Of course, under the circumstances where there exists this kind of space-overall deviation, the proportion of localities in which the extent of such deviation is greater is higher than that of localities in which the extent of such deviation is smaller.

In reality, the natural deviation of effects of industrial policies is mixed with the human deviation. This thus requires us to carry out a meticulous study and analysis, and to adopt totally different measures to deal with different kinds of deviation of effects of policies.

#### II. Actual Analysis on the Deviation of Effects of China's Industrial Policies

We are going to make an actual analysis as follows on the deviation of effects of China's industrial policies by

using the definition, and classification theory, to determine whether the deviation of effects of industrial policies is normal or abnormal.

Generally speaking, the situation of deviation of effects of China's industrial policies is rather serious, the actual effects of policies are not obvious, and there is a great difference between them and the expected value. In certain cases, such effects even go against the expected ones, so that the policies become totally ineffective or fail to work properly. At present, the following aspects are rather prominent:

(1) The situation that development of basic industries is falling far behind still has not been changed. It was repeatedly stressed that we must place the development of agriculture, energy resources, raw materials, transportation, and education on a prominent position, and must give priority to their development, so as to ease their restrictions of, and bottlenecks on, the national economy. As of today, however, no substantial change shows in the development of basic industries, and the restriction on the national economic development by their backwardness is still very strong. Though the structural contradiction between the basic industries and the processing industry was eased, this was done mainly because of the suppression of the processing industry by the austerity policy, rather than by having any fundamental changes in the production capability of the basic industries. Therefore, the production capability of the basic industries, which is weaker, still does not match the latent production capability of the processing industry, which is stronger. Therefore, the policy of giving priority to the development of basic industries fails to yield any ideal effects.

(2) The policy of rationalizing the composition of local industries fails to bring about any results. Over a long time in the past, we always stressed on local advantages, and on rationalizing the composition of local industries. However, the localities did not concentrate their production activities on those specific sectors that had their advantages in this respect. The development of nonspecialization in these localities brought about a reduction in the centralized and effective use of the limited supply of resources. Such tendencies became so serious in recent years that various localities share similar composition of industries. Without considering their own advantages, or their scale and speed of development of the basic industries, provinces that are rich in resources favored a shift in their composition of industries from the one focusing on resources and raw materials to the one on processing industry. Meanwhile, provinces that have advantages in developing processing industry ignored their economic and technological advantages, or devoted their efforts to technological transformation and the development of new industries, but favored a shift of their composition of industries from the one focusing on heavy processing industries to the one on light processing industries. Thus, they shared a similar composition of industries though they started from different starting points, and hence totally negated the policy of rationalizing the composition of local industries.

(3) It was difficult for the tertiary industry to make any progress. In the light of China's situation that the tertiary industry was very backward, the policy of developing the tertiary industry was put forward by the end of the 1970's. Much progress was made in the tertiary industry between 1978 and 1982. However, the development of tertiary industry since then was far from satisfactory. Though there was a major shift of surplus manpower from agriculture, most of the manpower in such a shift went to the industrial sectors rather than the tertiary industry. Also, though the number of urban laborers working in the tertiary industry was slightly more than before, the backward situation of the industry was still the same because most of the manpower from the rural areas directly went to the industrial sectors. In 1987, the ratio of China's primary, secondary, and tertiary industries to its GNP was respectively 29 percent, 46 percent, and 26 percent. According to the international standards, however, when the ratio of industry in a country, be it large or small and disregarding its level of income, exceeds 40 percent, its ratio of service industry must be at least two times that of agriculture. This indicates that China's development of service industry is rather backward.

(4) It was difficult for industrial organizations to achieve economies of scale. We repeatedly stressed the development of lateral economic links, and of specialized division of labor, so as to improve the economic results derived from economies of scale. However, there were no actual results. Not only did we fail to basically transform those original industrial organizations the scale of which were not economical, but we also failed to prevent them from continuously setting up new production enterprises the scale of which were also not economical. Not only did town and township enterprises, which emerged in recent years by basing on traditional technology and production methods, fail to achieve economies of scale, but also production enterprises which were set up to make television sets, washing machines, refrigerators, and others by relying on imported advanced technology and production lines. The production volume of these enterprises was far below the level necessary for achieving the economies of scale.

(5) No remarkable achievements were made in technological progress or in readjustment of the composition of technology. An important area of upgrading the composition of industries is to increase the degree of technology-intensiveness, and an important aspect of rationalizing the composition of industries is to readjust the composition of technology. Though we have long stressed technological progress, and readjustment of the composition of technology, their effects on the readjustment, as well as perfection, of the composition, of technology were not remarkable. A prominent manifestation is that we failed to merge those imported advanced technologies with existing ones, so that they became a closed self-circulating part in the composition, and the links among industries were severed. In addition, most of those rather advanced and sophisticated technologies were in the hands of processing industry which made over-supplied goods, whereas the technological standards of basic industries, which made short-supplied



goods, were relatively backward. As this kind of technology distribution among sectors remained unsettled for a rather long time, this seriously hindered any effective readjustment of the composition of industries.

(6) Development of high technology ended prematurely. Facing the world's rapidly developing new technology revolution, we once put forward the policy and suggestion of meeting this challenge of new technological revolution of the world, and developing high technology industries. After an upsurge, however, our enthusiasm became dampened. Now, we place our focal point on seizing opportunities in the shift of industries among countries resulting from the world's readjustment of composition of industries, and are prepared to meet another type of challenge.

Basically, the deviation of effects of industrial policies mentioned above is the overall one. In terms of time, these policies had been implemented for a considerable period. Some of them were even stressed for a long time. Theoretically, the policies should have been continuously perfected, and should have become mature, after such lengthy period, so that the deviation of effects of policies should be minimized. However, facts went in the opposite direction. There were even cases in which the deviation of effects of policies was widened. The backward development of basic industries, similar composition of local industries, small-scale and diversified production, slow technological progress, and so forth are a general problem, rather than a partial or local one. Of course, the extent of the problem varies from locality to locality.

Since the deviation of effects of these industrial policies was an overall one, it was, to a very large extent, caused by human factors.

(1) Mistakes made in policymaking. It is undeniable that some of those deviations of effects of industrial policies cited above were indeed caused by mistakes made in the process of policymaking. They are specifically manifested as follows:

(1) There was no in-depth study or comprehensive analysis on the present situation or environmental conditions of the industry concerned, so that policies and suggestions deviated from the objectively existing economic and social conditions. For example, on the issue of developing high technology industries, we set too high a level, and did our work so hastily, that it exceeded the capability of China's economical and technological conditions at the present stage. Of course, this does not mean that we do not need to develop any high technology industries. Instead, it conforms to the practical need that we should appropriately develop certain technology industries in respect of which we are good at.

(2) We stressed the selection of policy objectives, and the general trend of orientation, but lacked strong and powerful policies and measures, and the variables of objective did not match the variables of means. For example, in giving priority to the development of basic industries, the objective of development was very clear,

and it conformed to the practical need. Nevertheless, there were few measures for the specific work of implementation, and the means were not powerful, so that the results of the work were not remarkable.

(3) Policymaking was not done in a systematic way, so that some economic policies made an impact on the industrial policies, and prevented them from being effectively implemented. For example, when we developed industries producing short-supplied goods, suppressed industries producing over-supplied ones, and appropriately checked the growth speed of industries, we assigned to the lower level a planned growth rate of fiscal revenue set at a very high level. Therefore, one was forced to increase his investment in fixed assets, and to use high speed to ensure that the planned growth rate of fiscal revenue would be fulfilled. Consequently, the readjustment of composition of industries "existed in name only." To a very large extent, some other economic policies that favored growth in the output value made the implementation of industrial policies "impractical."

(4) Decisions were arbitrarily made, and policies were changed so frequently that there was a lack of stability and continuity. For example, in the development of tertiary industry, many people rushed headlong into action. Everybody strived to become a businessman, and built hotels on large scale. When there was chaos in the circulation channels, however, companies were seriously cut, and construction of buildings and hotels was suspended.

(11) Policies were executed in a form different from what was expected. After reforms were carried out, it became a more prominent situation that industrial policies were executed in a "form different from what was expected." It has become a common phenomenon that "whenever there is a measure from above, there is always a countermeasure from below." This has exerted significant influence on the deviation of effects of policies, which are mainly manifested as follows:

(1) Policies were superficially executed. In the process of implementation, such policies were only propagated once, and were superficially executed. For example, in the development of basic industries, the local governments made little investment in these industries under repeated injunctions of the central authorities. But their investment sum was generally insufficient. In 1986, of the investment in key industries, 62.4 percent was by the central authorities, and only 19.2 percent was by the local governments. The local authorities invested most of their money in the processing industry.

(2) Policies were selectively executed. In the process of implementation, only industrial policies that were beneficial to the local authorities were executed; and those that were not beneficial to them were discarded. For example, in rationalizing the distribution of local industries, only such industries that were favorable to the local areas were resolutely and swiftly executed; whereas those that were unfavorable to them were resisted.

(3) Policies were executed after substitution. When relevant industrial policies might be detrimental to the local interests, they worked out under the pretext of "flexibility" certain "countermeasures" which superficially tallied with, but actually deviated from the spirit of, the original policies.

(4) Policies were executed after certain elements were added. In the process of implementation, some other elements, which went beyond the requirements of the original policies, were added, so that the target, scope, strength, and objective of readjustment of such policies were enlarged. For example, it was necessary that we had to import and assimilate overseas advanced technology in order to promote technological progress and readjustment of the composition of technology. Theoretically, the focal point of importing such advanced technology was on the development of basic industries, which were beneficial to the production of short-supplied goods. In addition, it should mainly be on the software and key component parts. In reality, however, the focal point of importing such technology was mainly on the production of high-class durable consumer goods. Furthermore, whole sets of equipment, spare and component parts, and raw materials were imported on a large scale. (III) The policy object resisted against them. Generally speaking, the policy object in China did not take an active attitude toward the industrial policies. This was mainly manifested in the following areas:

(1) They were slow in reacting. The object did not enthusiastically support the implementation of, and turned a deaf ear to, the call of implementing relevant industrial policies. They were slow in reacting even though such policies were favorable to them. For example, a considerable number of enterprises did not enthusiastically respond to the call of making technological progress for industries though policies concerning this work had been carried out for years, so that a large number of backward traditional technology is yet to be transformed.

(2) They stick to conventions. This kind of conservative inertia was very great among the policy object. This kind of inertia can be eased and abolished only after the lapse of a lengthy period.

(3) Their level of tolerance was low. As the policy object in China profoundly developed a dependent mentality because of protection under a long-term administrative power, they were less adaptable to changes in the external environment, and thus of course found it difficult to bear any readjustment in the setup of interests caused by the industrial policies.

(4) They lacked an innovative spirit. They asked for the formation of policies when relevant ones were absent, and they were indulged in enjoying such preferential treatment provided in such policies when they were implemented. Under such circumstances, it was often very difficult for the industry-supporting policies and protection policies, to achieve any expected results.

The three areas mentioned above are factors that have caused an overall deviation of effects of China's industrial policies. Comparatively, however, the leading factor is the one that policies were executed in a form different from what was expected. This is a very common and serious phenomenon in China at the present stage.

### III. Profound Causes for the Deviation of Effects of Industrial Policies, and Their Countermeasures

A profound analysis of the deviation of effects of industrial policies involves a study of the causes leading to deviation of behavior on the part of the subject of policymaking, that of the subject of policy execution, and that of the policy object.

#### (I) Deviation caused by confusion in the setup of interests.

At present, confusion in China's setup of interests is mainly manifested in two areas: (1) Interest relationships among different parties were ambiguous; there was no express clarification regarding the interests of the state, that of local authorities, and that of individuals. (2) The interest relationship was misplaced among them. While both the local governments and the central government shared the same function of macroeconomic readjustment, enterprises were carrying out the social security and welfare undertakings such as residential construction, medical services, and so forth, and decisions on operation and production, which were the responsibility of enterprises, were made by the governments.

Under such setup of interests, the behavior of the subject of policymaking, the subject of policy execution, and the policy object was, to a varying degrees, distorted. Being forced to readjust the composition of industries, the subject of policymaking must safeguard its amount of fiscal revenue while pursuing growth in the output value. Consequently, the policies made were often contradictory, were conflicting with each other, and it was impossible to specifically make such industrial policies dovetail with other economic policies. In addition, it was impossible from start to finish to implement such policies. It was thus inevitable that policies became unstable and were not supported by corresponding arrangements. As the subject of execution was eager for quick success and instant benefit, and each implemented such policies in his own way, in the process of implementation such industrial policies were carried out in a form entirely different from what was expected. Besides, the policy object took an unenthusiastic attitude toward, and superficially carried out, the policies. Substituting the objective of profitmaking by their purpose of maximizing their income, they expanded the workers' welfare at the expense of long-term development of the enterprises concerned. Playing tricks with the upper level when negotiating, they showed no interest in, and even resisted against, acts of upgrading products, making technological innovations, improving quality, saving energy and raw materials, which were the requirements of the industrial policies.

**(2) Deviation of behavior caused by the ineffectiveness of mechanism regarding the norm of behavior.**

The present situation in China is that the traditional mechanism regarding the norm of behavior is no longer applicable. However, the new one is yet to be established, so that there is a vacuum in terms of the norm of behavior. This was mainly manifested in two areas: (1) There lacked a mechanism to standardize the law, so that the rights and obligations of the parties concerned were not clarified according to the law. Therefore, there was no way to judge whether or not the acts of the parties concerned were lawful, and there was no way to bind the acts of such parties. (2) There lacked the criteria for judging values, so that it was impossible to evaluate whether or not actions by the parties concerned were taken with good intention, nor was it possible to distinguish the "necessary" ones from the "unnecessary" ones. As we were unable to affirm or negate the value judgement made on the form of actions taken by the parties concerned, it was impossible to turn the rational thinking into belief and common practice, which were the norm of moral ethics.

Under the circumstances where the mechanism regarding the norm of behavior became ineffective, the subject of policymaking, that of policy execution, and the policy object got a larger room to "do whatever they wanted," and they could find a "proper" excuse for "doing whatever they wanted." Thus, the subject of policymaking might make decisions at will, arbitrarily alter the viewpoint of policies, and avoid being responsible for making such decisions. The subject of policy execution might take their own interests as the parameters to determine whether or not to take countermeasures against, and to selectively implement, the central policies. The policy object might change their form, exploit the "loopholes" of policies, and resist against them by being slow in reacting.

**(3) Deviation of behavior caused by poor quality.**

Under a long-term centralized system of administrative leadership, the subject of policymaking, that of policy execution, and the policy object found it difficult to promptly adapt themselves to the present management system and method of integrating centralization with diversification, which conforms to the requirements of commodity economy. Therefore, they gave a poor performance. This was mainly manifested in the following areas: (1) They were not familiar with the rules of operation, as well as the basic principles, of commodity economy itself, and could not meet the objective requirements of the commodity economy. (2) Their way of thinking, way of working, management methods, and other acts were greatly different from the management methods required by the commodity economy.

Judging from the above analysis, we may come to a conclusion that under the present objective conditions, it is difficult for us to criticize such behavior itself. This is because the pursuit of self-interest is inevitable in the development of commodity economy, and we must not

regard it as the reason for the deviation of behavior, still less the cause for deviation of effects of policies. The key to the issue rests with the confusion of the setup of interests, and the ineffectiveness of mechanism regarding the norm of behavior. Therefore, it is inevitable that such pursuit of self-interests became deviated, and their poor quality further exaggerated such deviation of behavior. Therefore, the direction of rectifying and overcoming the deviation of effects of industrial policies is not to check the pursuit of self-interests by the subject of policy execution or the policy object. Instead, the direction should be to rectify the setup of interests, to strengthen the mechanism regarding the norm, and to improve the quality of various parties, so that they will put forward, execute, and accept policies while pursuing their proper interests subject to the norm of behavior.

**(1) To rectify the setup of interests.**

At present, China's confused setup of interests was a product of a simultaneous change in its mode of economic development, and the mode of reform of its economic system. Specifically, it refers to the current system of contracting financial responsibilities, system of contracting enterprises, two-tier pricing system, development of banking enterprises, localization of banking business, the grant of the state's preferential policies by levels, and so forth. While shocking the super-stable "reversed" setup of interests under the traditional system, this has brought about the confused interest relationship, and a situation of misplacement.

Of course, it is very difficult to rationalize such a setup of interest relationship. The rigidity of vested interests has become a major obstacle against any further development of reforms, and there is no way for us to return to the starting point and begin all over again. Our only choice is to gradually readjust the distorted interest relationship. Under the circumstances where the misplacement of interests cannot be promptly rectified, we should first clarify certain confused interest relationship, so as to establish corresponding norms of behavior. But we should not take such clarification nonchangeable. Then, we should strengthen the interests of certain areas while reducing those of other areas in view of the subject of such interests, so as to rectify the misplaced setup of interests. Thus, we may at least reduce to a certain extent for the time being the deviation of effects of policies, though it is impossible to fundamentally change the nature of such deviation. This also means that it is impossible for us to have in the near future any remarkable actual achievements. Whether or not an industrial policy is a successful one is determined by the rationality of the setup of interests, but this is a lengthy process.

**(2) To strengthen the mechanism regarding the norm of behavior.**

Essentially, the norm of behavior is formed on the basis of a certain setup of interests. Before such setup is rationalized, it is very difficult to form any norm of behavior. Nevertheless, the mechanism regarding the norm of behavior may, to a certain extent, bind people's acts, and reduce the deviation



in this respect. Therefore, it is necessary that before the setup of interests is rationalized, we should strengthen the mechanism regarding the norm of behavior. In addition, it is at present the major method to reduce the deviation of effects of policies.

In strengthening the mechanism regarding the norm of behavior, there are three major points: (1) We should strengthen the building of laws, perfect the economic laws and regulations, clarify the limits of authority, as well as responsibilities, (even though it is for temporary and short-term purposes) of various subjects of interests, and make them legally bind people's acts. At the same time, we should consider promptly straightening out and amending the existing laws and regulations, in the wake of readjustment of the setup of interests resulting from the in-depth development of economic reforms, so as to make them conform to the changes. (2) We should strengthen the function of policy monitoring. Institutions in charge of the work should monitor the whole process, promptly locate and check any acts of violation of the law in the process of making and executing the policies. For this reason, we must strengthen the power and expand the channels of monitoring. We must set up different kinds of monitoring institutions to straighten out the discipline. (3) We should strengthen the moral ethics and develop a self-constraint mechanism. These are mainly done by making a large-scale effective propaganda, and through confirmation by the public opinion about the criteria for judging the value of behavior, thereby strengthening people's sense of self-constraint.

### (3) To improve the quality of the subject of policy acts.

The quality problem is not a major one in the present deviation of policy acts. Nevertheless, under the circumstances where the setup of interests cannot be promptly rationalized, to improve the quality of the subject of policy acts is also a significant measure for reducing the deviation of effects of policies. In addition, in the long run, it also gives a basic guarantee for realizing the policy effectiveness.

To the subject of policymaking, it is mainly to improve their capability to make scientific projections, to improve their skills in rationally and comprehensively coordinating the economic means, legal means, and administrative means. Thus, they can put forward practical and new approaches in view of the development of new situation. This thus requires them to be equipped with the following: (1) a modern way of thinking, being creative, and never confining themselves to the existing policies; (2) capable of making projections, and being good at making decisions on the basis of having done investigations beforehand; (3) having systematic thinking in every aspect, and paying attention to dovetailing their policies with other ones, as well as the new ones with the old ones; (4) being good at using various policy means, and good at making an optimal combination of them; (5) being good at evaluating the adverse results, and determining the losses and gains of a rational policy.

To the subject of policy execution, it is mainly to improve their skills to execute the policies in a systematic, coordinated, and selective way. Therefore, they are

able to, under the prerequisite of upholding the ideology of policymaking, generally suit the policies to local conditions, clarify the extent of their importance, weigh the pros and cons whenever contradictions occur among the policies, and give play to their advantages.

To the policy object, it is mainly to improve their adaptability to the commodity economy, as well as the new policies which are made on such basis, eliminate their hostile attitude against such policies, and strengthen the level of tolerance of their mentality, so that they are able to enthusiastically respond to such policies.

## PROVINCIAL

### Tibet Achieves Record Economic Gains

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[Text] Lhasa, February 24 (XINHUA)—The past five years have witnessed the biggest economic strides in the history of the Tibet Autonomous Region, one of the poorest parts of China.

The region's industrial output value was 235 million yuan in 1990, 6.3 percent more than that for 1989, and the local revenue in 1990 reached 18 million yuan, a 30.4 percent increase over that of the previous year.

Having suffered financial losses for about 20 years, the region was in the black for the first time, to the tune of 2.257 million yuan, in the third year of the Seventh Five-Year Plan (1986-1990); it had been 7.41 million yuan in the red in 1986.

Local officials say the achievements are attributable to the central government's financial aid and preferential policies toward the region, in tandem with the local government's efforts.

In the past 30 years the central government has granted a total of 13 billion yuan for agricultural development and various construction projects in the region.

During the past five years the central government has given about 200 million yuan-worth of financial aid each year to Tibet, a region with a population of about 2.2 million.

And, more importantly, the central government has decided that the collective and private sectors should be taken as the dominant economic structures in the region, while the state-owned economy is in the dominant position elsewhere on the Chinese mainland.

Besides, the local government of Tibet has lifted taxes in the agriculture, animal husbandry, business and industry sectors.

The average per capita income of Tibetan peasants and herdsmen increased to 430 yuan in 1990, from 200 yuan in 1986.

During the past five years Tibet has enlarged its economic co-operation with developed areas in other parts

of the Chinese mainland and developed economic relations with foreign countries, particularly neighboring countries in South Asia.

Foreign trade has developed at an annual rate of 30 percent since 1984. The volume of foreign trade last year reached 36 million U.S. dollars-worth, double that for 1985.

Livestock, local products and herbal medicine find ready markets in 20 countries and regions.

The number of free markets has increased to about 100 from only a handful in 1980. There are over 45,000 private pedlars doing business in the region.

Total grain output surpassed 560,000 tons last year, 100,000 tons more than the record harvest in 1985.

The total number of livestock stood at 22.99 million head last year, 2.41 times the figure before the democratic reform was carried out in 1959.

Income from the tourism industry has increased to 225 million yuan during the past five years.

However, according to an official of the regional government, the biggest economic achievement Tibet made during the five-year period is that it has put itself on the correct road of developing a socialist commodity economy where there existed no aspects of a modern economy previously.

Before the democratic reform was introduced in the 1950s, Tibet was a feudal society and social productivity was extremely low. In some areas, slash-and-burn cultivation methods were still in use. Most of the land, pastures and animals were owned by local government officials, aristocrats and monasteries, who comprised less than five percent of the population. Underfed and poorly clothed serfs made up the other 9 percent of the population.

#### **Achieving Stable Economic Development in Guangzhou**

9ICE0291A Guangzhou GUANGZHOU RIBAO  
in Chinese 31 Dec 90 1 Jan 91

[Article in "Exploration and Contention" column by Liu Changping (0491 2490 1627) and Chen Yaou (7115 0068 7743): "How Guangzhou Can Achieve Stable Economic Development: Seize the Opportunity and Make New Choices" (Part I); "Countermeasures and Suggestions" (Part II)]

#### **[31 Dec 90 p 7, Part I]**

[Text] In the last two years, due to changes in external conditions, Guangzhou's economic development has run into many problems. An over-tightened economy has led to inadequate demand for final goods, and the slowed pace of reform and opening up has put society and the economy in a dilemma. Guangzhou does not have a clear economic development strategy for the 1990's, and this adds to the uncertainty as to what choices it should make in order to increase the demand for final goods. How to

achieve stable economic development is something we must work arduously to find out.

It is the authors' opinion that for Guangzhou to achieve stable economic development, we must analyze the past and ponder the future sober-mindedly. We must put Guangzhou's economy in the context of the global economy, the national economy, and regional economy and strive to take advantage of the opportunities the external environment has opened up for us and also create for ourselves an internal environment that facilitates economic development.

#### **Challenges and Opportunities**

Looking at Guangzhou's external conditions, we must focus on the following points:

#### **One, we must grasp the global economic development trend.**

In the modern world, the new scientific and technological revolution will speed up economic and technological developments and the readjustment of the industrial structures of countries worldwide. There is a marked trend of internationalization of the economies around the world. International trade has become increasingly competitive, and the global economic center is shifting. In the wake of accelerated economic integration in Europe and the development of economic division of labor and cooperation in the Asian Pacific region, Europe and the Asian Pacific region will become the most energetic and most competitive regions in the world economy.

With regard to the direction of capital flow, a pattern of increasing two-way capital flow between the developed countries and regions has emerged with respect to international investments. Take the United States, Great Britain, and Germany for example. The share of foreign-controlled capital in those countries is 9 percent, 14 percent, and 17 percent, respectively; employment by foreign-invested enterprises as a percentage of the total employment comes to 4 percent, 14.4 percent, and 17 percent, respectively; sales by foreign-invested enterprises as a percentage of total sales is 10 percent, 20 percent, and 19 percent, respectively.

From the point of the direction of investment of international capital, the emphasis has been on high tech industries, finance and insurance, tourism and real estate and other knowledge-intensive, technology-intensive, and capital-intensive industries. Take Hong Kong, for example. There are more than 1,300 Japanese-financed enterprises. The Japanese put their money into everything from finance and banking, manufacturing, department store retail sales, to real estate and construction. With respect to finance and banking, Japanese banks are the wealthiest banks, and they have become the most financially solid foreign-owned banks in Hong Kong. With respect to manufacturing, at the end of 1988, Japanese investment in Hong Kong was worth as much as HK\$7 billion. Japanese-owned stores account for more than 50 percent of the total department store retail sales, and so far as real estate and construction are concerned, between 1985 and 1989 alone, Japanese investment

in Hong Kong has reached \$2.5 billion, and Taiwanese investment in the Hong Kong real estate market is beginning to surpass the Japanese entrepreneurs'.

Looking at the developmental strategies of the newly industrialized countries and regions for the 1990's, the emphasis will be on accelerating the construction of their infrastructure and changing their industrial structure. Take the "four small dragons" for example. Concurrent with perfecting the infrastructure at home, Singapore is launching a "second industrial revolution." South Korea is trying to turn its industry into the world's "most advanced industry." After raising \$16 billion to build a new airport and port facilities, Hong Kong is also pursuing "industrial diversification." Taiwan has plans to spend \$6.2 billion to complete 26 infrastructure projects in the next 6 years and pursue "industrial upgrading," ushering in a "post-industrialization society."

This implies that the gap between the developing countries and the developed countries will further widen. To Guangzhou, this means more of a challenge than an opportunity. On the one hand, it gives us an opportunity to expand the export of labor-intensive products and bring in the low-cost investments from developed countries and regions. On the other hand, it makes it even more difficult for us to attract international capital to develop high-tech and advanced industries and export high-tech and advanced products. Our only choice is to seize the opportunity, accept the challenge, and promptly launch the development of an externally oriented economy.

**Two, we must recognize the characteristics of China's economic development.**

China's economic development in the 1990's will be marked by two main features: one, it will open up in all directions; two, it will seek a high rate of growth.

In the 1990's, China will be opening up to the north, south, east, and west. Development will be skewed mainly toward industries, and regionally, the emphasis will be on Shanghai's Pudong, Fujian's golden triangle, the Liaodong Peninsula, and Shandong. The completion of the Shen-Da Freeway and Jing-Jin-Tang Freeway, linking of the new European-Asian continental bridge, construction of the Changjiang industrial corridor, and the implementation of the regional development strategy in the western regions will radically change the flow of products and the distribution of industries. In the 1990's, China will continue to follow the path of rapid economic growth with steady increase in prices. In the wake of thorough reform and opening up, we will put an end to the improper price relationship. It is inevitable that prices will take turns escalating. Employment pressure created by the newly-added labor force of people growing up in the cities and towns around the country and the need to shift nearly 200 million surplus agricultural workers in the rural areas to the nonagricultural sector will give China no choice but to seek a high rate of economic growth. This implies that the "preemptive advantage" Guangzhou enjoyed in the 1980's for being

among the first to implement reform and open up will soon disappear. In the 1990's, Guangzhou will have to rely on its own economic strength and bring in advanced technologies to increase its strength and vigorously develop import substitutes and produce new products that have high added-value, that are high-priced, and that neither require a lot of energy and resources to produce nor pollute the environment to retain its commanding position over the inland markets, because only then can we remain undefeated.

**Three, we must pay serious attention to the effects of the flourishing economy of the Zhujiang Delta on Guangzhou.**

The Zhujiang Delta's economic strength has increased 10-fold in the last 10 years. Light industrial production that used to center in Guangzhou has spread to the medium-sized city clusters in the Zhujiang Delta, which specialize in the light manufacturing industry. As urbanization picks up speed, Guangdong's 16 cities and 42 counties which make up its open zone, its three SEZ's, is coastal open cities, Zhanjiang, and many medium-sized and small cities will be charged with the important task of agricultural and industrial modernization, and Guangzhou itself must accept the mission of becoming a modernized urban hub.

This means Guangzhou must accelerate the development of trade and circulation, communications and transportation, post and telecommunications, banking and insurance, information and consultation, science and technology and education and so on. It must seize the opportunity to accelerate the pace of transformation and upgrading of the traditional industries and give impetus to upgrading its industrial structure and diversifying the city's functions.

**Four, we need to make a thorough study of the possibilities of economic cooperation with Hong Kong and Macao.**

Hong Kong and Macao have sustained prosperity and stability in recent years. On the one hand, they have accelerated the construction of infrastructure to secure their status as economic hubs of the Far East. On the other hand, they have given impetus to promoting the industrialization of the interior cities, especially the Zhujiang Delta, turning them into Hong Kong's industrial hinterland. In the next decade, and even several decades, in order to achieve regional superiority, economic cooperation and tight alliance of the entire South China region to promote mutual prosperity will become a even more obvious trend.

So far as Guangzhou is concerned, the choice should be to further give play to its role as a coastal urban center and political and cultural center, and bring into play its superiority as the junction that links the south and the north, the outside and the inside. It should perfect and give play to its urban functions as foreign trade center, financial center, technology exchange center, international tourist service center, and communications and transportation hub. The focus should be on in-depth



cooperation with Hong Kong and Macao to promote economic prosperity of both regions.

#### **New Choices**

In view of the changes in Guangzhou's internal conditions, we are also faced with some new choices:

**One, the choice of rapid development:** In the 1990's, Guangzhou should sustain the rate of economic growth at 10-12 percent.

Within the next 10 years, Guangzhou needs to find work for more than 900,000 people. Just to meet this employment need alone, it will have to keep the rate of industrial production growth at around 8.01-9.60 percent. Province-wide, the real rate of economic growth should be kept at around 15 percent throughout the 1990's. If Guangzhou's economy should fall short of these goals substantially over a long period of time, it will not be able to play a role in giving economic impetus to the rest of the province, and its own stable development will be jeopardized. Compared to Shanghai, Beijing, and Tianjin, Guangzhou's economic growth rate can only be higher, not lower; otherwise a gap will open up, because in the 1990's, Guangzhou's population is likely to increase at a rate of more than 1 percent while population increase in Beijing, Shanghai, and Tianjin may be kept to around 0.5 percent. Different population pressure naturally requires a different rate of economic growth. Only if Guangzhou can sustain its growth rate at 10-12 percent can the current economic situation be maintained; otherwise, government revenues and expenditures cannot be guaranteed, and many unstable elements will ensue.

**Two, the choice of industrial development directions:** In the 1990's, the direction of industrial development most advantageous to Guangzhou will remain to be toward the consumer goods industry.

Since the 1980's, the export of consumer goods has made up more than 70 percent of Guangzhou's total exports, and its consumer goods have captured 7 percent of the domestic market share. This superiority should be maintained throughout the 1990's. In the next 10 years, the living standard in Guangzhou will continue to rise steadily, and the consumption hot points will be telephones, air conditioners, housing, motorcycles, and small cars. A family planning survey showed that consumption of everyday goods by 20 percent of Guangzhou's high-income households accounts for half of the city's total consumption. Specifically, these households spend 3.32 times more on household furnishings and 3.01 times more on household electrical goods than the average family. This implies that as the living standard rises steadily, consumption of everyday goods will increase substantially. Looking at the amount of durable consumer goods the citizens already own, 20 percent of the high-income households spent 73.41 percent more on motorcycles, 467 percent more on air conditioners, and 92.31 percent more on VCR's than the average household. This means there will be several large, hot items in the 1990's which will be replacing the major

items people already have, and the consumer market will have to cater to more expensive tastes and demand for better quality and better service. Judging by Guangzhou, the rest of the country promises a vast consumer market and tremendous potential. If we concentrate our efforts on developing consumer goods and forge ahead, striving to lead the nation's consumer goods industry, Guangzhou can give full play to its economic superiority. We must have confidence that in the wake of thorough reform and opening up, a national, unified market will gradually take shape in the 1990's.

**Three, key investment choices:** In the 1990's, Guangzhou's investments should emphasize urban infrastructure.

Guangzhou's goal is to develop into a modern urban center. The main emphasis should be on urban communications, urban real estate development, post and telecommunications, port facilities and airports, stations and docks, which cannot neither be imported nor can they be transferred from elsewhere. We must realize that Guangzhou is China's main gate of the south, and there is no need for it to be completely self-sufficient and go the way of closed development, especially in view of the fact that a large, modern city can never produce or process or supply everything it needs. Thus, we must be extra careful about developing our own raw materials industry and invest in equipment-type industry. We should make careful decisions based on comparative costs and choose wisely. Looking at Guangzhou's infrastructure, the airport's handling capacity is almost stretched to the limit. Traffic in the city is a mess. Post and telecommunication services are inadequate. Many old and dilapidated buildings urgently need to be rebuilt. Many serious pollution problems need our immediate attention, and urban renewal cannot be delayed any longer. Take the city's traffic, for example. In 1981, an unofficial count showed that the city had 43,410 automobiles; by 1988, the number has risen to 89,518. It had 394 kilometers of roadway in 1981 and 545 kilometers in 1988. It had 3.6 million square meters of road surface in 1981 and 6.51 million square meters in 1988. The number of cars has increased 106.22 percent, roadways have increased 38.32 percent, and the road surface has increased 80.83 percent. This shows that traffic congestion can only increase, rather than decrease, and getting increasingly worse. It is estimated that by the year 2000, the number of vehicles of all types will exceed 150,000 units, and if lined up bumper to bumper, they will stretch more than 500 kilometers; and if we add the increasing number of bicycles and motorcycles, we can imagine how congested it will be. Moreover, construction of the infrastructure is a major undertaking with a long pay-back period. If we do not speed up construction now, it will have an adverse effect on economic development.

**Four, the choice of fund raising methods:** Guangzhou should bring the financial markets into play when raising construction funds and plant a foothold on utilizing local funds fully while striving to absorb domestic and foreign capital.

In the 1990's, Guangzhou will require in excess of 100 billion yuan to finance its economic development. Without smooth fund-gathering channels, without some important fund-raising methods, it will be unable to resolve its fund shortage problem. In the next 10 years, we must establish a pattern of diversified investments, relying on methods such as utilizing foreign capital, financing our own investments, and borrowing funds from the banks as our main investment channels. With respect to bringing in foreign capital, relying on borrowed funds alone is certainly not the best approach, because there is a limit to how much we can increase our foreign exports, and paying back the principal and interest will create tremendous pressure for us. If we can create the conditions and utilize the financial markets to attract foreign investors to make independent investments or joint investments in Guangzhou, striving to raise the proportion of international investment in Guangzhou to around 10 percent, Guangzhou's participation in international division of labor will make speedy progress. From the point of attracting domestic capital, in the 1990's, the flow of domestic funds will continue to favor the well-developed regions. If Guangzhou adopts some flexible measures, as the fatherland's southern main gate and the financial center of South China, Guangzhou can capture at least 10 billion yuan of the domestic funds. From the point of the amount of regional funds the city has, its enterprises' self-renewal and expanded reproduction capabilities more or less can sustain a 10 percent increase in accumulations, and the citizens will have a strong urge to make investments in the 1990's. Analysis showed that Guangzhou's citizens are showing increased interest in financial assets and real estate. In the 1980's, the income of Guangzhou's citizens increased at a rate of about 14 percent, but the rate of increase in savings reached nearly 31 percent. Data collected in 1989 showed that most savings of 20 percent of the high-income households can no longer be considered postponed-consumption and are available for use as construction funds. Looking at the increase in bank savings by Guangzhou citizens in the last two years, they accounted for nearly 20 percent of the national income, or 15 percent of the GNP. From the standpoint of accumulation, half of the accumulation came from civilian bank deposits. In the 1990's, civilian savings no doubt will be one of the main sources of accumulation funds. In short, if we solve the financial market operation problems, formulate new fund gathering methods, and smooth the fund gathering channels, we can surmount the obstacles which are keeping Guangzhou from maintaining a proper rate of development.

Based on the above strategic considerations, Guangzhou's advantages and disadvantages are quite clear, its strength and possibilities for economic development are obvious, and the challenges and opportunities it faces are also unambiguous. So long as it weighs its advantages and disadvantages, chooses and follows what is right, formulates proper measures, and promulgates and

implements concrete policies, Guangzhou not only can end the problem of slow growth but can attain steady growth in the 1990's.

#### [1 Jan 91 p 7, Part II]

It is our opinion that if Guangzhou seeks steady development, it must adopt the following measures:

#### **1. We must familiar ourselves once again with Guangzhou's socioeconomic development strategy, and in accordance with the changing conditions, we should prolong the strategic cycles and readjust the strategic goals.**

We should make becoming a modernized urban center Guangzhou's goal, extend our strategic studies into the year 2010, carefully review the developmental strategy for the year 2000, and turn it into two five-year plans. To Guangzhou, giving play to the diverse functions as an urban center is more important than the simple pursuit of industrial growth in the next 10 years. As China's urbanization picks up speed, many medium-sized and small cities will emerge and will rapidly become industrialized, specialized cities. The missions of the large cities are undergoing profound changes. The establishment of a closed, large and self-contained development system is destined to fail because it violates the principle of social division of labor, raises the opportunity cost, and diminishes our comparative advantages, and eventually the loss will outweigh the gain. Thus, Guangzhou must plant its foothold on giving play to its comprehensive urban functions and should not compete with the mid-sized and small cities or the newly developed cities over primary products and natural resources.

In optimizing the industrial structure, we must boldly leap over the traditional stages of industrial development and be resolute about casting off the industrial burden of high energy consumption, wasteful land-use, serious pollution, and large back and forth freight volume. We should eliminate the backward industries, adjust the available land resource and assets, and begin to upgrade the industrial structure and improve the economic layout. We must vigorously develop the externally oriented economy, vigorously open up domestic markets, vigorously strengthen the region's infrastructure, and continue to maintain its superiority in being among the first to develop the consumer goods industry.

The above choice, besides stemming from strategic considerations, are also based on the following reasons:

The RMB [renminbi] exchange rate has followed a downward trend, and it will prove profitable if we vigorously develop an export-oriented economy and maintain a high rate of growth in foreign export. China will continue to readjust its tariffs to promote the development of the national industries, and this will help Guangzhou's products to capture a fair share of the domestic market. In recent years, Guangzhou has increased exports to earn more foreign exchange, utilized foreign exchange and brought in foreign capital and



advanced technologies to enhance its export and foreign-exchange earning capabilities, and has developed import-substitutes vigorously in order to satisfy local needs and capture domestic markets. This has proved to be a successful developmental path. This fine experience in economic circulation deserves careful review.

The choice of preserving the superiority of being among the first to develop the consumer goods industry is based on the needs of the domestic and foreign markets and on the current phase of Guangzhou's readjustment of the economic structure and on Guangzhou's own economic strength. In the next 10 years, Guangzhou's tertiary industry will develop faster than its secondary industry, and within its secondary industry, the construction industry will grow faster than the manufacturing industry. Within the tertiary industry, post and telecommunications, real estate, finance and insurance, and consulting services will develop faster than the commercial food and beverage business and passenger and cargo shipping business. With respect to industrial development, the raw material industry offers no special advantage because of raw material shortages, the scarcity of land, and the high labor cost compared to other regions and so on. With respect to the development of investment-type goods, because of the weak technological foundation, substantial initial investment, long construction periods, and lack of overall superior factor, if we rush into development, the spirit may be willing, but the flesh is weak, and the endeavor may eventually turn into a heavy burden. The development of the consumer goods industry, however, is a different story. In the 1980's, Guangzhou has already made technological improvements in several areas, and the industry has substantial absolute advantages. In the 1990's, we see tremendous potential in China's consumer market and the consumer markets in Europe and the Middle East and other regions. Industrial upgrading in the developed countries will prompt them to give up some consumer goods markets, and the developing nations will have a chance to capture those markets. Thus, with Guangzhou's real strength, it will have a comparative advantage in developing the consumer goods market.

**2. We must uphold the reform and opening up, give more weight to the reform, and accelerate the pace of opening up.**

Guangzhou's economic mechanisms have undergone profound changes over the last 10 years. Microeconomically, it has basically landed on the track where the market plays the principal role, and macroeconomically, it has also given much more weight to organizing, establishing, and regulating and controlling the market. But it has yet to formulate an effective macroeconomic system and create an energetic and lively microeconomic base. Thus, without taking big strides forward with respect to reform and opening up, even if Guangzhou manages to weather the current problems, it will have trouble maintaining stable development.

Specifically, in accordance with the demand of the socialist planned commodity economy, we should accelerate the reform of the planned system, the fiscal and monetary systems, the income allocation system, and the social security system. We should expedite the development of the market operation mechanism and the market system, accelerate the creation of a great-market environment which lets us import from abroad and cooperate with units in the interior and melds foreign and domestic markets into one. We need to speed up the formation of an energetic and lively enterprise operation mechanism which truly allows enterprises to make decisions, take responsibility for their profits and losses, accumulate, and discipline themselves. We must create the conditions to facilitate the reform of the enterprise shareholding system and organize several large-scale enterprise groups to give enterprises overall superiority, enhance their competitiveness, give impetus to the readjustment of the industrial structure and product-mix, and bring economies of scale to play. In addition, we must stop hesitating about the reform of the housing system now, so as to facilitate the formation of a real estate market as soon as possible.

**3. We must accelerate the development and perfection of the market, speed up the process of internationalization of the market, and proceed immediately to implement reform to enhance our ability to cater to the international markets.**

We must create an effective market for capital goods to promote the proper allocation of means of production and give play to the market's regulation and control functions. At present, the most urgent task is to accelerate the development of the financial and real estate markets. From the point of Guangzhou's current economic situation and its development in the 1990's, we will be making an irreparable mistake if we put off setting up a financial market. It is estimated that by 1995, the amount of funds in civilian hands will exceed that year's GNP, and around 60 percent of those funds will be concentrated in the hands of the top 20 percent of high-income households. These funds will manifest themselves in the form of bank deposits and stocks and bonds, and if there is no financial market at work, the money, of course, cannot be put to effective use and may even exert pressure on society.

As the living conditions improve, people will have greater demands for housing and growing interests in real estate. In the wake of reform of the housing systems in enterprises under the ownership by the whole people system and the collective ownership system as well as the state institutions, commercialization of housing has become a foregone conclusion. In the wake of technological renewal and the readjustment of the industrial structure, enterprise mergers, closures, and asset collateralizing and auctioning will be inevitable. Thus, we must accelerate the formation of a real estate market. Take housing construction for instance. By the year 2000, if the per capita living area in Guangzhou should reach 10 sq m, we will need 32 million sq m of new housing, and if we add the renovation and demolition of

old and dangerous buildings, it is estimated that we will need 40 million sq m. This huge real estate demand no doubt will mean tremendous development for the construction and building materials industries. In the 1990's, those born at the peak of the baby boom in the 1970's will reach working age, and they will become a rich source of manpower. If we seize the opportunity, set up a real estate market and a financial market promptly, and arrange the allocation and circulation of the labor force properly, Guangzhou will be in a much better position to achieve economic development in the 1990's than in the 1980's.

**4. We need to increase investment demand by a reasonable amount and maintain a proper investment scale.**

Ultimately, the crux of society's reproduction is expanded reproduction. Only by increasing investment demand continuously can we spur consumption demand, and only then will society's expanded reproduction proceed smoothly. Because for two years in a row, the scope of investment in Guangzhou's capital construction has fallen below the physical capital construction of the base period, and although the city can still sustain simple reproduction, slow economic growth has become inevitable. Thus, no matter which investment direction we turn to, we must continue to increase the investment scope by a reasonable amount. This is the precondition to sustained, stable, and smooth development of the national economy.

By our estimation, just to satisfy the employment needs, which is the minimal requirement for economic growth, Guangzhou will have to invest at least 51 billion yuan during the Eighth Five-Year Plan period. To maintain a 10-percent growth rate, it will have to invest 55 billion yuan. Judging by Guangzhou's economic strength, such investment volume should pose no problem. Under the Eighth Five-Year Plan, Guangzhou's GNP is expected to reach about 185 billion yuan; 55 billion yuan in investments come to about 30 percent of the GNP, which is basically comparable to Guangzhou's historic investment ratio. If we want to achieve 12 percent growth rate, we will have to invest nearly 10 billion yuan more, and we will have to work through the financial markets to attract foreign and domestic capital to achieve this scope.

**5. We need to improve the overall coordination of macroeconomic regulation and control policies.**

Economic development requires unanimous macroeconomic regulation and control policy goals which together form a combined force. Overall coordination of Guangzhou's macroeconomic regulation and control policies depends on the thorough restructuring of the entire economic system. Because of limited space here, we will not elaborate but will suggest several viewpoints on the principles of policy coordination:

*First, we must skillfully coordinate the industrial policies.* Guangzhou's industrial policy cannot deviate from the developmental goals of the 21st century, nor can they be a duplicate of the national industrial policy. Instead,

under the guidance of the national industrial policy and in accordance with Guangzhou's overall program to optimize the industrial structure, the city should skew its policy toward the lead industries, the key industries, and the basic industries, and help the superior and eliminate the inferior traditional industries, so as to make sure that the readjustment of the economic structure can proceed in an orderly fashion.

*Second, we should seize upon and manipulate the monetary policy by centering it around the industrial policy and the overall needs of economic development.* Regionally speaking, monetary expansion and contraction must balance the needs and the possibilities of the readjustment of the industrial structure and take into full consideration society's capital movement and supply-demand equilibrium. Looking at the overall trend in Guangzhou in the 1990's, alternate application of a mildly expansionary monetary policy and a neutral monetary policy will benefit Guangzhou's steady economic development the most. It is estimated that under the Eighth Five-Year Plan, Guangzhou City's available funds will increase at a rate of around 15 percent. Thus, a neutral monetary policy basically is to sustain a 15-percent increase in the fund utilization rate, and if economic growth should slow down, we can increase fund-use by a modest amount to help the economy recover.

*Furthermore, with regard to macro-coordination of the fiscal policy, we should plant our foothold on achieving long-term economic stability and regulate to counter the economic cycles.* When the economy is growing fairly rapidly, we should increase the government's share of revenue and produce a surplus; when economic growth slows down, we should decrease the government's revenue share and produce a deficit. We must not add fuel to the fire when the economy is already unstable and make it even more volatile. Because the economy is always in complicated, interacting motion, the chaotic and fluctuating social reproduction is due to supply-demand disequilibrium, structural imbalance, and the separation of the movement of commodities from that of funds.

**6. We must strengthen the economic alliance and cooperation among Guangzhou, Hong Kong, Macao and the Zhujiang Delta.**

From the point of fostering in-depth cooperation with Hong Kong and Macao, we support the following suggestions: The governments, financial groups, and scholars from the two regions should gather together to study the issue of how to implement structural cooperation and coordinate the development; to jointly produce and develop better industrial products and satisfy the demand of domestic and foreign markets; to jointly produce and develop agricultural and sideline products, giving play especially to their advantage as coastal cities to obtain food from the sea and create two, sea and land, food supply lines; to jointly develop a diversified, multilevel international market and set up multilateral trade and create a business alliance and commercial network; to jointly build a commodity production base in Guangzhou to provide Hong Kong and Macao with a steady supply of goods; to jointly develop scientific, technological,

and educational undertakings and information, consultation, and tourist industries and develop high-tech products and make their products more competitive; to jointly open overseas enterprises and gradually form different kinds of transnational, transregional enterprise groups.

From the point of developing economic relations with the Zhujiang Delta, we must gather the resources as quickly as possible and join Zhujiang Delta in studying and formulating an overall Zhujiang Delta regional economic development plan. We must conduct an in-depth study of and coordinate the overall economic development strategy for the Zhujiang Delta for the year 2000, making a transition to an economic setup which is more reasonable and a division of labor which is distinct, and avoiding structural similarity and competition with ourselves. Looking at the big picture, we must first break down the barriers between administrative regions, link similar enterprises within the Zhujiang Delta together to form enterprise groups, and coordinate production and marketing. Second, we must gather the funds in the Zhujiang Delta region together and form large-scale transportation, communications, and commodity circulation networks. Furthermore, we must jointly establish scientific and technological educational and training centers to improve the quality of workers and the educational standard in the region. Step by step, we want to turn the Zhujiang Delta region, which centers around Hong Kong and Guangzhou, into the best developed and most influential economic region in the area.

In short, so long as we face our current problems squarely and think in terms of long-term development, accelerate the process of reform and opening up, speed up the development and perfection of the market, improve coordination of our macroeconomic regulation and control policies, strengthen economic alliance and cooperation among Guangzhou, Hong Kong, Macao, and the Zhujiang Delta area, and maintain a proper investment scope, Guangzhou will be able to end its slow economic growth and enter a new developmental phase of steady growth.

## FINANCE, BANKING

### Shanghai's Financial Strategy for 1990's

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[By Lai Zuyin (0171 4371 5593)]

#### [Excerpts] 1. Shanghai's Financial Development Strategy Defined and the Basis On Which It Rests

[Passage omitted] 1. Near-term goals (1990-1993): The important thing is to firmly establish the Jiangsu-Zhejiang region as a center for funds transfer. During these several years, China will continue to implement improvement, rectification, and deepening of reform to accord with the spirit of the Fifth Plenary Session of the 13th CPC Central Committee, appropriately slow the pace of overheated economic development, vigorously

control inflation, and from Wenzhou in the south to Lianyungang in the north and with Shanghai as its center, work hard to build a basic-level modernized commodity economy that meets international standards. With funds being tight throughout the country, Shanghai must, on the one hand, add two banks run with foreign capital and two Sino-foreign joint venture finance companies, and strive to establish two new specialized banks (a savings bank and a real estate bank). By the end of this period, the output value of its financial industry could reach 7 billion yuan and constitute 7.8 percent of the GNP for the entire municipality. On the other hand, it must work to develop a funds market and gradually build a harmonious network of relations for funds in the Jiangsu-Zhejiang region and in the provinces and cities of the Changjiang River valley.

2. Medium-term goals (1994-1997): A harmonious funds relationship must be rapidly developed with the provinces and special economic zones of the Changjiang River valley and coastal region. Concurrent with the development of Shanghai's outwardly oriented economy and Hong Kong's return to the motherland, Shanghai's financial industry must thoroughly implement a strategy of financial flexibility. It must strive to add five banks run with foreign capital, three Sino-foreign joint venture banks, and a certain number of new specialized banks (such as science and technology development banks, import-export banks, and industrial credit banks), as well as a number of nonbanking financial institutions. The output value of its financial industry will, as a result, reach 14 billion yuan, constitute approximately 11.9 percent of GNP for the municipality and about 26.4 percent of the output value of tertiary industry, and approach the level of an intermediate-ranking country.

3. Long-term goals (1998-2000): Concurrent with the mutual encouragement and support that Shanghai and Hong Kong will provide each other following Hong Kong's return to the motherland and along with the upsurge in Pudong development projects, Shanghai will add three new banks run with foreign capital, five Sino-foreign insurance companies, and a certain number of finance companies. A financial market of relatively developed standards will now have taken shape, one which handles large volumes of funds and which collects and disseminates information. During this period, tertiary industrial output value can be expected to reach 45 percent of GNP, attaining the level of key cities in developed countries. The output value of the financial industry could constitute 30 percent of tertiary industrial output value, that is, about 17 billion yuan, a 5-fold increase compared with the 3.4 billion yuan of 1987. This a general outline of what the basic framework of China's largest financial center will look like then. Later, following another period of effort (for example, 20-30 years), Shanghai could, like London, New York, and Tokyo, become one of the largest financial centers in the world, towering over the Asian Continent.



The financial development strategy and strategic targets we have described above are not an idle fancy. They are based on the following objective considerations.

*1. Considered on a global scale:* The overall strategic pattern of the present international economic and financial situation is at a stage of the most profound change and adjustment since the end of the Second World War. It is essentially characterized by competition, interdependence, cooperation, and development—with competition being especially intense. For example, since the sixties, three international and regional financial centers have sprung up in the Far East, Singapore, Hong Kong, and Tokyo, constituting a tripartite balance of forces arrayed against China. On entering the eighties, China's Taiwan Province—driven by high aspirations and the advantage that latecomers have over the earlier arrivals—formally established in 1983 an "Overseas Financial Center" in an effort to improve its economic and financial position in the Far East. The evolution of this financial posture and pattern presents a severe challenge to China. Shanghai's financial industry is the most advanced in China. Shanghai is duty-bound to be the first to take up the challenge that China faces vis-a-vis world finance. Consequently, it must expand and develop, deepen reform, strengthen its own construction work, improve its level of management, cope with external challenges, and work hard to develop cooperation and exchanges with various countries.

*2. Considered on national scale:* From the fourth quarter of 1988 when improvement, rectification, and deepening of reform began until the present, rather remarkable results have been attained. However, some difficulties have also occurred during the advance. As China's largest economic center, Shanghai, in addition to the task of turning over 10.5 billion yuan to the state each year, must make a greater contribution to resolving the difficulties of the state. And, in addition to the challenge of international competition that it now confronts, Shanghai also has to face domestic challenges from its brother provinces and municipalities. Because of their rapidly developing economies, Shanghai's original advantage is gradually being eroded. If Shanghai is to meet this challenge, extract itself from its predicament, and advance toward development, it must thoroughly implement a policy of "first, stability, and then, enthusiasm," stride forward in international markets, and energetically develop an outwardly oriented economy. This is the "theme" for developing Shanghai's economy in the nineties. However, if this is to be accomplished, there must a vigorous development of the financial and insurance industries. We cannot even contemplate a lack of enterprise funds and being unable to purchase raw and semifinished materials with which to produce export products. Thus, developing a healthy financial industry and strengthening financial services are preconditions for developing an outwardly oriented economy.

*3. Considered at the level of the financial industry itself:* One of the main tasks of the socialist financial industry is to deal

in monetary funds accommodation in support of commodity production and circulation. As a result of their intensive efforts, Shanghai financial institutions have attained notable success in this regard. For example, in the nine years between 1980 and 1989, loans for operating funds extended by financial institutions in the municipality increased 36.07 billion yuan. As a proportion of GNP, loans for operating funds went from 63.58 percent in 1980 to 80.97 percent in 1989. The corresponding effect of this was to accelerate Shanghai's economic development. However, since the policy of the "dual crises" was put into effect, there has been a serious problem of enterprises being behind in their payments, turnover of funds has been inefficient, the size of loans has constantly increased, and the increase in savings has shown a relative decline, thereby causing a fund crisis for financial institutions. In the second half of 1989, the municipality was short 3 billion yuan, forcing financial institutions into a desperate search for means to cope. It is predicated that, in the beginning of the nineties, shortages of funds and obstruction of their turnover will continue to exist, and if effective measures are not taken, this could imperil Shanghai's production and become a factor restricting normal economic development in the nineties.

## II. The Key Points of Shanghai's Financial Development Strategy

Defining financial development strategy and its strategic targets provides direction for the normal development of the financial industry. However, in specific operational situations, things have to be integrated and done in order of their importance and urgency. Based on the present situation and estimates of what Shanghai's financial industry will be responsible for during the nineties, the key points of financial development strategy should be as follows:

*1. In line with strengthening macroeconomic regulation and control by the regional central banks (the People's Banks) and strengthening awareness for stabilizing and protecting the value of currency, we must each year conscientiously withdraw surplus currency from circulation as ordered by the central bank.* Both domestic and foreign experience show that a stabilized currency is a principle factor in providing security in people's lives, in maintaining social order, and in promoting economic development. With respect to Shanghai, it is important to grasp two things. First, we must fully understand that the city frequently has more than 1 million people from other parts of the country who spend large amounts of cash to buy commodities and to live. We must, as a result, actively withdraw surplus currency from circulation as mandated by the state. Second, we must strengthen management by the regional central banks over specialized banks renegotiating loans and rediscounting notes in order to conscientiously keep credit amounts within the limits set by the state. At the same time, we have to implement needed reforms in the rediscount system that is now in effect. This means shifting from controlling the amounts of discounts to incorporating them into planning targets and, depending on the flexibility of the bank, modifying the rediscount rates whenever necessary. They should be controlled but



not stifled, used actively but not chaotically. These methods should help protect the value of currency.

2. *We must continue our efforts to form savings accounts, vigorously develop savings institutions, and constantly expand sources of credit.* "With respect to banks, their principle significance throughout is savings deposits." (*Capital*, volume 3, page 45) This is because the savings deposits that the banks attract are their bases for loans. Without savings, there would be no loans, or for that matter, any bank function. At the end of 1989, the total amount of savings in China's banks constituted 72 percent of the total amount of loans. It was the same in Shanghai. At the end of 1989, the total amount of savings in the municipality constituted 67 percent of the total amount of loans. It is obvious from this that savings are indeed the bases for loans. Every bank must give full play to making loans. They have to fully understand that "attracting savings deposits" is a vital link. It was like this in the past, and it will be like this in the future. There is simply no avoiding it.

3. *We must readjust the focus of funds investment, extend credit properly, and give priority to making adjustments at the right time.* Extending to enterprises loans based on planning, goals, material guarantees, obligatory payments at specified dates, "differentiating between enterprises with varying capabilities and providing support to units with better potential," and other such principles is required of the financial industry in accordance with the basic economic laws of socialism and the basic obligation to give energetic support to the development of production. From 1980 to the end of 1989, Shanghai financial institutions extended a total of more than 36 billion yuan in operating funds loans to enterprises, the resulting effect of which was to accelerate Shanghai's economy. Going into the nineties, Shanghai's financial industry must continue to extend credit in a proper manner by adhering to the policies of the "dual crises," being guided by state industrial policies, emphasizing the start-up of markets, and not exceeding the credit limits set by the state. [passage omitted]

4. *We must actively support the development of Pudong and rebuild Shanghai as a financial center.* [passage omitted] All departments must, in accordance with the strategic policies of "being geared to the needs of the world, to the 20th century, and to modernization" and under the guidance of the overall program for developing Pudong, integrate their own special characteristics, offer advice and make suggestions, and make greater contributions to build Pudong into a new, modernized city, thereby enabling Shanghai to emerge on the western shores of the Pacific as an imposing, multifunctional, modernized international city with an overseas focus. The financial industry could do a great deal in this regard. By attracting various types of savings deposits and launching activities to raise funds, it could obtain substantial funds for the development of Pudong. It could add to its institutional network in Pudong to provide wide-ranging, high-quality financial services, such as handling savings deposits, loans, remittances, and the settlement of accounts, supplying information, advice, insurance,

trusts and investments, foreign exchange adjustments, and stock market assistance. It could develop real estate, set up banks run with foreign capital, and facilitate the introduction of foreign funds, and it could even open an offshore banking zone in Lujiazui to gradually form an offshore financial center that, in concert with Waigao, would form a new Shanghai financial center.

The Shanghai financial industry in the nineties should also exert the effort needed to rebuild Shanghai as a financial center. In the thirties, Shanghai was the largest financial center in old China and even in the Far East. For example, in 1935, 77.84 percent of the 2.63 billion yuan in savings deposits throughout the country were concentrated in Shanghai, 77.4 percent of the 2.37 billion yuan in credit that had been provided nationwide was provided in Shanghai, and 50.7 percent of the paid-up capital of the nation's banks was concentrated in Shanghai. Thus, Shanghai fully exercised its social function of collecting and distributing funds. At that same time, China's currency issuing center (the Central Bank) was located in Shanghai. The head offices of the Kuomintang government's four trades, two bureaus, and one treasury and that of the nationally important Commercial Bank were in Shanghai. It had 27 banks run with foreign capital, and its international trade constituted approximately 50 percent of China's total volume. The figures are impressive. In addition, Shanghai set the standard for the rest of the Far East for foreign exchange rates, interest rates, and gold and silver prices, and it had a full array of credit instruments that were used. The city had as a result extensive managerial experience. Journalists from all over referred to Shanghai as the "New York of the Orient." After the founding of the People's Republic, for reasons that everyone knows, Shanghai's financial functions gradually withered away and its dominant position as a financial center almost completely disappeared. Following the Third Plenary Session of the 11th CPC Central Committee, the important function of finance was again recognized and gradually developed. From 1979 to 1987, the number of financial institutions grew from 10 to 39 and the number of people working in the industry increased from 18,100 to 29,000. The categories of savings accounts increased from 4 to 12, the loan categories from 3 to 11, and the total amount of savings and loans greatly increased. Financial markets of various types appeared one after another. Foreign activities gradually became more widespread. And the stock exchange was revived and developed to a certain extent. However, we are still a long way from the essential needs of a financial center. We still have a long way to go. It is our great hope that with unremitting effort in the nineties and by taking advantage of Shanghai's overall dominant position, we can again make the city into a financial center.

### III. Several Strategic Measures in Shanghai's Financial Development Strategy

If we are to effect the goals and strategic focus of the financial development strategy discussed above, we have

to carry out a series of important strategic measures. Some of the major ones are as follows:

*1. Continue to deepen reform of the financial system* [passage omitted] With respect to the objective demands of the nineties, the need to continue to deepen reform of the financial system involves the following. First, by drawing up a proper funds program for the municipalities and fully utilizing various methods, such as renegotiating loans and mortgages that have been rediscounted and strengthening guidance at the counter, we can further strengthen mechanisms of macroeconomic regulation and control of the regional central banks and thereby further establish a system of financial regulation and control where central banks mainly exercise indirect regulation while making direct control subsidiary. Second, we should continue to carry out reform of financial organizations and institutions. If we are to further perfect and strengthen a socialist financial system with various financial institutions existing side by side and cooperating in the division of labor, a system led by the central banks and composed mainly of state banks, we must within the next two - three years, in accordance with the policies of the State Council and our own capacity to regulate and control and based on such overall conditions, as export volume, reciprocity, the funds capacity of the opposite parties, and professional superiority, carefully select and set up a certain number banks run with foreign capital, thereby properly satisfying the demands of Pudong development. Third, we must repeatedly perfect and develop financial markets to facilitate the promotion in a planned way of commodity economy production, exchanges, and consumption and to facilitate the proper exercise of macroeconomic financial regulation and control by the central banks and microeconomic regulation and control by the specialized banks. At the same time, we should learn how to quickly establish stock exchanges and promote the standardization of stocks. Fourth, we must carry out reform of the interest rates structure, the foreign exchange management structure, and the system for settling accounts.

*2. We must further improve the management and administration of financial institutions.* The nineties, which will be an important period in Shanghai's development of an outwardly oriented economy, requires that various institutions in the financial industry be able to provide valuable services and, through their administration, earn substantial profits. Consequently, they still must work hard to improve their own administration and management in order to change the present situation that exists in some financial institutions where "banks do not conduct themselves as banks." The measures to be taken are: First, it is necessary to free ourselves from the outmoded concepts of product economy models and reform banking administration and management according to socialist commodity economy principles, thereby establishing a new conceptual system for banking administration and management. The important thing is to establish a concept of the market, of competition, of development, of monetary interest, and of risk, to urge financial institutions at various levels to raise and utilize funds based on the laws of value and market mechanisms, to take

advantage of the time value of monetary funds, to continually promote funds appreciation, to expand credit funds, and to increase ability to cope with contingencies. Second, we must absorb and draw upon the experience of advanced management methods for modernized and socialized scale of production from countries all over the world, including developed capitalist countries. In particular, we must emulate and draw upon the advanced managerial and administrative experience, methods, and techniques of modern capitalist banks. Third, basic-level banks must implement reform to enable them to be run as enterprises. They must be made into genuine economic legal entities with uniform rights, responsibilities, and interests—entities which can, through independent management, be responsible for their own profit and losses and seek their own balance of funds, which can enjoy the economic benefits that come from successful policy decisions, and which must also assume responsibility for economic losses caused by their own improper actions. It is on this basis that basic-level banks are to be encouraged to take part in the interplay and competition of business, thereby accomplishing their various functions even better.

*3. We must quickly provide modern telecommunications equipment and related service facilities.* That old Shanghai was able to become the largest financial center in China and even in the Far East was closely linked to the advanced communications equipment that it had at the time. For example, in 1871 an undersea cable was laid between Shanghai and London. The pulse of the Shanghai financial market was thus tightly linked to the heartbeat of world financial centers. More than 20 years later, the establishment of a domestic telegram and telephone network with Shanghai as the hub enabled its financial market to rapidly learn about financial changes from all over and allowed it to immediately exercise its influence on various financial markets. If we are to complete the various tasks of the nineties, Shanghai must, as soon as possible, have available modernized communications facilities. The measures to be taken are: First, we should build a financial communications network between the large- and middle-sized cities of the Ningbo, Shanghai, and Hangzhou region, one that would have communications links such as direct dial telephones, electrical transmission, and telegraph, which could be used to handle remittances, transmit information, and for business contacts. Second, the Shanghai branch of the Bank of China should quickly enter into the "worldwide banking communications system" to utilize the electrical transmission network for domestic and international links. Banks with representation abroad and foreign trade enterprises could settle international collection and payment accounts with overseas banks with a fast turnaround of funds. Third, the widespread use of computers in the savings account systems would make it more convenient for clients in concentrated areas to effect transactions through the network. These basic-level facilities could be leased or credit could be obtained from foreign exports and gradually paid off from business expenses.

4. We must actively train a number of specialists proficient in economics, finance, accounting, and law. Finance is a scientific discipline. If we are to implement financial development strategy and its strategic goals, we have to have many people versed in financial theory and endowed with abundant practical experience. This means they must have a broad strategic perspective and have been carefully trained. At present, Shanghai Municipality only has 29,000 people working in the financial industry (including 1,700 people in insurance). This constitutes a mere .38 percent of the total number of workers and staff personnel in the city—far fewer than in New York (11.5 percent), Tokyo (5.2 percent), Paris (8.4 percent), London (11.5 percent), Cairo (11.2 percent), Singapore (7.5 percent), and New Delhi (7.2 percent). There are fewer high-level specialists, 40 percent are young employees, and the professional level still does not meet requirements. We have to make every effort to adopt a multichannel, multiform training approach. First, we must set up schools and various types of training classes in the specialized science of banking and focus on training primary-level personnel for the financial industry. Second, we must establish a Shanghai finance academy mainly for training middle-level people with substantial theoretical knowledge and professional administrative skills. Third, we must set up a research department within the Shanghai finance academy (or a high-level financial cadre training class), which would invite domestic and foreign experts and professors to teach. The main focus would be on training high-level managerial and research personnel. We must do our best to ensure that, between the years 1996 and 2000, 70,000 people will be working in Shanghai's financial industry. This would be equivalent to the number of employees in the financial industry that presently in Hong Kong and would meet the needs of Shanghai's financial industry for the nineties. If these important strategic measures can be put into effect one by one, then the realization of Shanghai's financial development strategy and its strategic goals will be guaranteed.

#### **Causes of Weakened Financial Administration, Remedies**

91CED2424 Sanming ZHONGHUO JINGJI WENTI [CHINA'S ECONOMIC PROBLEMS] in Chinese No 6, 20 Nov 90 pp 38-44

[Article by Li Qiya (2621 0796 0068) of the Anhui College of Finance and Commerce: "On the Causes and Remedies of Diminishing Financial Administration Capabilities"]

[Excerpts] [Passage omitted] 1. Causes of Diminishing Financial Administration Capabilities At All Levels

##### **A. The erroneous money management guiding ideology:**

A correct money management guiding ideology is an important precondition that determines the effectiveness of financial administration. Because there have been errors in our money management guiding ideology in recent years, our financial administration functions have been weakened. Primarily, this is evident in the following areas:

1. We have been zealously going after accelerated economic growth and have overlooked the importance of balancing

the budget and maintaining overall equilibrium in the national economy. Economic development that centers around improving economic efficiency is an important guiding principle, but this principle has never been properly implemented. We have over-emphasized production value and high rate of growth to achieve economic development and have unrealistically sought to double the output value too soon, causing a sharp increase in social demand and losing macroeconomic control, which eventually lead to economic dislocation and upset the overall equilibrium. Affected by this kind of reckless pursuit of accelerated growth, we no longer gauge our own capability in carrying out financial administration tasks but have pursued expansionary financial and monetary policies, at times making quite popular the theories that "deficits are harmless" and "inflation is beneficial." The results are, on the one hand, the economy has overheated and economic efficiency has declined, resulting in reduced financial revenues and diminished ability to accumulate wealth, and on the other hand, financial expenditures have kept on rising, and we have had deficits year after year, putting us in great financial difficulty.

2. The idea of "devolving power and yielding profit" as an administrative measure has led to the decentralization and dissipation of financial revenues. In the early days of restructuring the economic system, a series of financial measures to "hand down power and yield profit to the lower levels" have been adopted, injecting new energy and vitality into the economy. But making "devolution of power and yielding of profit" the only means to bring about financial reform and enliven the economy inevitably has caused the decentralization and dissipation of financial revenues and has undermined efforts to further enliven the economy at the microeconomic level. [passage omitted]

3. The idea of "eating off of public finance" undermines financial administration's economic construction and macroeconomic control and regulation functions. During economic reform, because of the lack of a thorough and correct understanding of the functions of public finance and the ignorance of the productive and constructive natures which are the essence and the characteristics of socialist financial administration, we have simply copied the Western nation's "consumption-oriented public finance" model, at times giving the idea of "counting on public finance for one's livelihood and the banks for production and construction" the upper hand. [passage omitted]

B. The structure of financial resource allocation is unbalanced: The unbalanced financial resource allocation structure can be seen mainly in the following areas:

1. The allocation of national income is skewed toward enterprises and individuals. The national income is fixed at any given time, and if the allocation leans too heavily toward enterprises and individuals, it will of course affect the government's revenue increase. For example, in 1978, the state-run enterprises realized 63.621 billion yuan in total profit, 2.75 billion of which were retained by enterprises, 1.19 billion were spent on pre-tax debt



payments, and \$9.68 billion were delivered to the treasury. Proportionally, they made up 4.2 percent, 1.9 percent, and 93.9 percent, respectively, of the total profit. In 1988, total profit came to 112.85 billion yuan, of which 70.2 billion were retained by enterprises, 24.66 billion were spent on pre-tax debt payments, and 179.9 billion were handed over to the treasury. Proportionally, they made up 62.2 percent, 21.9 percent, and 15.9 percent, respectively, of the total profit. Over a 10-year period, enterprises have kept a net of 605.3 billion yuan for their own use, keeping an average of 24.2 percent more of the profit each year, exceeding by far the 8.2 percent rate of increase in the government's financial revenue. With respect to the allocation relationship between the state and individuals, in the absence of an effective check and balance mechanism to allocate personal income, the personal benefit mechanism has become more powerful and personal income channels have continued to increase in number. In the 10 years since reform began, the people's money income as a percentage of the national income has increased substantially, from 41.7 percent in 1978 to 70.2 percent in 1988, and the rate of increase in personal income has also exceeded by far the rates of increase in national income and fiscal revenues during the same period. There are also some improper elements in the allocation of personal income which have led to serious inequities in social allocation and have added momentum to the increase in personal consumption funds.

2. Budgeted revenue as a percentage of the national income is shrinking too rapidly, and extra-budgetary funds are increasing too fast. Although both budgeted and extra-budget funds fall within the category of public finance fund, because they have different characteristics and serve different functions, we must distinguish what is primary and what is secondary and keep them at reasonable proportions. Budgeted funds are the state's centralized public finance funds and are also the bulk of the resources that enable the state to perform its functions; therefore they must be given the primary role. In recent years, however, there has been a sudden surge of extra-budgetary funds, and they are overwhelming the budgeted funds. In 1979, extra-budgetary funds equalled 42.4 percent of budgeted funds; by 1988, they came to 91.2 percent, increasing at an average rate of 20 percent a year over a 10-year period, and in absolute terms, they have increased by 5-fold. The surge in extra-budgetary funds decentralizes the state's financial resources and causes the share of budgeted income to plummet relative to the national income. In 1979, budgeted revenue was 31.9 percent of the national income, and by 1988, it has fallen to 19.2 percent. The steady decrease in budgeted revenues as a percentage of the national income has seriously undermined the performance of financial administration functions. There is not enough fiscal funds to cover the expenses, and the effectiveness of financial guarantee has greatly diminished.

3. The allocation relationship between central and local governments is inequitable, and financial administrations at different levels are not shouldering their fair share of

responsibilities. The financial system is an important system that determines the financial allocation between the central and local governments. In the process of restructuring the economic system, the system of state monopoly of revenues and expenditures has been smashed, and a system of "eating out of separate pots" has been installed, and we have had some good results, but it has not been a complete success. The financial allocation relationship still lacks normality and stability. The administrative and property rights of governments at different levels have not been integrated, and central and local financial administrations are squeezing each other. We have a level-by-level contract system in name but a history of renegeing on the contracts in fact. Financial administrations at all levels have trouble shouldering the government's responsibilities at their respective levels. Currently, the most obvious problems are: One, the central government's share of revenues relative to the total revenue is shrinking, and financial administration as the central level as the lead mechanism of the country's financial operations lacks the necessary financial base and cannot shoulder the important tasks of guaranteeing key constructions, regulating fund surpluses and shortages, and exercising macroeconomic regulation and control. Two, with respect to local financial administration, because the local governments have to take on more and more duties, because the way the financial contract base is determined is unreasonable, because the financial allocation policy is always changing, and because there is no relatively stable source of income, revenues and expenditures are often affected by the changing systems, and efforts to plan and budget local economic and construction undertakings are often futile.

C. The financial regulation and control system is imperfect and the means of regulation and control are ineffective:

Macrofinancial regulation and control are an important component of the national economic regulation and control system and are also one of the important functions of financial administration. In today's financial operations, because the financial regulation and control system is imperfect and the regulation and control measures are ineffective, it has prevented the proper performance of financial administration functions. This can be seen mainly in the following areas:

1. There is no clear regulation and control goals, and the regulation and control policies are unstable. First, we need clear-cut goals. [passage omitted] Otherwise we will be regulating in vain and haphazardly, producing the adverse effect where "control leads to rigidity and decontrol means chaos." This is also a main reason why the national economy has failed to achieve sustained and steady development.

2. The financial regulation and control measures are ineffective. Ultimately, the result of macrofinancial regulation and control can only be achieved with the proper use of regulation and control measures. The weakening financial regulation and control functions today has much to do with the ineffective regulation and control measures. Specifically: We have a poor mix of financial

expenditures. Fiscal spending is one of the most direct means to regulate the economy. But since reform, we have had a poor mix of financial expenditures, which has diminished public finance's regulatory functions. Primarily, this is manifested in the sharp decrease in spending on production- and construction-oriented projects and sharp increase in spending on administrative undertakings. In 1978, production- and construction-oriented projects accounted for around 60 percent of the total expenditure; in 1988, they fell to around 35 percent while administrative undertaking-type expenditure as a percentage of total expenditure increased from 18 percent in 1978 to 31.5 percent in 1988. The sharp decline in productive and constructive spending undermines financial administration's economic and regulatory functions and diminishes its resource allocation capability, and it also deprives the state of sufficient key construction funds and slows basic industrial and infrastructure constructions. At the same time, among the production-oriented projects, because the investment structure is not guided by a proper industrial structure policy, the localities and departments tend to base their decisions on selfish departmentalism and invest in small, light, and structurally similar industries. They invest heavily in ordinary processing industry, exacerbating the already unbalanced economic structure. With respect to spending on administrative undertakings, expenditure on administrative outlay has been increasing the fastest. In 1978, administrative outlay only came to 5.29 billion yuan; by 1988, it came to 26.708 billion yuan, increasing by more than five times, and to some extent, it has expanded the scope of financial expenditures, added to the government's burden, and increased society's consumption funds, making it impossible to control the purchasing power of non-individual consumers. The amount of financial subsidy is huge, and its regulatory function has diminished. Today, financial subsidies (enterprise loss subsidy and price subsidy) have reached hundreds of billion yuan, which take up one-third of the state's total expenditure and constitute the state's heaviest financial burden. At the same time, financial subsidy's role as an economic lever is greatly diminished. Out of the total subsidy for enterprise losses, subsidies for policy-induced losses exceed by far the amount of subsidy for operational losses. Most price subsidies are spent to subsidize consumption, which not only protects the unsound pricing system but also obstructs the attempts to guide the consumer demand properly and helps to increase consumption funds.

Some of the functions of the tax lever have been weakened and can no longer play an effective role in regulating the economy. For example, because there is no upper or lower limits to the bonus tax, it is very difficult to control the handing out of bonuses. Meanwhile, because the taxpayers are not individuals but enterprises, many workers are eating out of enterprises' big pot. There is disparity in tax burden among different trades and different ownership systems, which makes it impossible for enterprises to compete on equal footing.

At present, industries' tax burden is heavier than businesses', and state-run enterprises' tax burden is heavier than collective and township enterprises'. Construction tax is levied after the fact and is not an effective means to control the scope of investment. There is little control over tax exemption and reduction, which diminishes the mandatory nature of taxation. Tax collection and management lag behind, and tax fraud, evasion, and default are rampant. Effort to guide the extra-budgetary funds has been slack and management has been lax. So far, we do not have a comprehensive program to open a "special savings account" for institutional extra-budgetary funds, and in particular, there is no effective management and supervision over enterprise extra-budgetary funds which make up the bulk of all extra-budgetary funds. They have become an important fund source for the localities, departments, and units, to be used as they see fit to expand investment or hand out cash or in-kind bonuses, and they are also the main reason behind the bloated social investment and consumption funds.

#### D. The financial legal system lags behind

Financial supervision is an important function of socialist financial administration and is also an important tool that ensures the completion of the state's financial and economic tasks. The lack of financial supervision in the economy today is directly attributable to the system of financial rules and regulations that fails to keep up. Primarily, this is manifested in the following areas:

1. The system of financial laws and regulations is unsound. Financial reform has opened up new money management possibilities in public finance. But because the reform measures do not complement one another, the formulation of financial regulations and systems has lagged behind. Many basic financial laws and regulations have not even been formulated and perfected, and as a result, the necessary standards and behavioral norms to guide the nation's economic operations and financial allocation and regulation and control activities are absent [passage omitted]

2. The people have little legal concept, and laws are not followed, nor are they enforced. Many localities and units act out of self-interest or selfish departmentalism and ignore financial and economic laws and regulations. They disobey order, ignore prohibitions, and "for every measure, they have a countermeasure." They do things their own way and draft their own laws, and violations of all kinds of financial and economic disciplines are rampant. [passage omitted]

#### II. Several Countermeasures To Strengthen Financial Administration

- A. We must correct the money management guiding ideologies and acquire a proper money management outlook. Practical financial reform requires the proper guidance of financial theories. To further strengthen financial administration, we must first have a correct money management guiding ideology. Public finance needs a new set of money management concepts. We must get rid of the traditional

ideologies and ideologies which in reality do not lend themselves to giving play to the functions of financial administration, so that we can immerse ourselves in practical economic reform with a brand new attitude.

1. We should firmly establish a concept of balancing the budget and maintaining overall economic equilibrium. During economic development, we should insist on balancing the budget and maintaining overall economic equilibrium. This is not only an objective demand of the law of proportional, planned development of the national economy but is also an important task during rectification and improvement. [passage omitted]

2. We need to readjust the financial reform idea of "devolving power and yielding profit." The goal of financial reform is to give even more play to the functions and role of financial administration and actively promote economic development. But the idea of "devolving power and yielding profit" alone can no longer help us achieve this goal. Thus, we must readjust the thinking behind financial reform, and under the current economic conditions, the main focus should be on enlivening the economy and creating a better external environment, and by promulgating a reasonable financial allocation policy, making use of the financial levers effectively, and implementing financial management and supervision properly, we hope to establish a good socioeconomic order. To enliven the microeconomy and expand enterprise property rights, we must perfect enterprises' internal management mechanisms and implement thorough reform. We cannot simply continue to pay the price of "handing down power and yielding profit to the lower levels" and depriving the state of its financial revenues.

3. We must preserve financial administration's productive and constructive nature and enhance its ability to participate in and to organize national economic management. Economic construction function is a basic financial administration function. The development of China's socialist planned commodity, the enhancement of the state's economic construction capability, and the implementation of macroeconomic regulation and control of the national economy are part and parcel of financial administration. Even in the West, financial administration's ability to intervene in economic matter has been on the increase. Thus, in financial administration, we should resolutely rid ourselves of the ideological influence of "depending on public finance for survival and the banks for production and construction" and give full play to public finance's economic role instead and use a proper combination of financial funds, financial policies, and financial levers to enhance financial administration's ability to participate in and to organize national economic management.

In short, by correcting our money management ideologies, we lay the ideological and theoretical foundations for further strengthening the financial administration functions comprehensively and make public finance truly production-oriented, management- and administration-oriented, efficiency-oriented, and development-oriented.

B. We need to readjust the financial allocation structure properly.

Different financial allocation structure will have different effect on how financial administration functions can be brought to play. Establishing a proper financial allocation structure is an important condition to further strengthening the functions of financial administration. In the current rectification and improvement process, we should adopt effective measures to correct the unbalanced financial resource allocation structure.

1. We must correct the tendency to allocate an excessive amount of the national income to enterprises and individuals. With respect to the allocation relationship between the state and enterprises, we should build a proper profit allocation system by implementing thorough reform and by first perfecting the enterprise contract management responsibility system. Currently, we should actively create the conditions, separate tax from profit, lower the income tax, abolish regulation tax, change pre-tax debt payment into after-tax debt payment, and implement after-tax contracting to allow the state to collect taxes in its capacity as executor of political power and also obtain profit in its capacity as owner of the means of production, so that its financial revenue will increase as enterprise profit increases. With respect to the allocation relationship between the state and individuals, we should tightly control the increase in personal consumption funds; we should strengthen the management of wage funds, especially tighten the control over nonwage income; we should rectify and prohibit the handing out of excess cash and in-kind bonuses and unauthorized increase in subsidies and grants and supervise and control diligently the income of certain companies and those in the secondary industry, private businesses, and individual industrial and commercial households; and, we should ban all illegal income while protecting all legal income, so that the increase in wages and bonuses and other personal income is kept below the increase in labor productivity rate and the national income. At the same time, by further improving the personal income regulation tax, we can regulate the inequities in income allocation and curb the tendency for personal consumption funds to keep on increasing.

2. We should concentrate our financial resources and increase the share of budgeted income as a percentage of the national income.

Basically, the increase in financial revenues is dependent on economic development. But at any given time, the amount of national income is fixed, and any increase in financial revenues will depend on how centralized the financial resources are. Thus, to resolve our current financial plight and guarantee the government's basic needs so that it can carry out its financial functions, we must raise the share of budgeted revenues as a percentage of the national income. The key to solving this problem lies in keeping the extra-budgetary funds from increasing too fast and on setting a ratio between extra-budgetary funds and budgeted revenues to prevent over-decentralization of funds. On the other hand, we should



determine the amount of budgeted revenue relative to the national income scientifically in accordance with the state's financial administration duties and responsibilities. Looking at public finance's recurring expenditure and key construction expenditure needs today, budgeted revenue as a percentage of national income should gradually be raised from under 20 percent to around 28-30 percent; otherwise, the government will be unable to shoulder its reform and development responsibilities.

3. We should readjust properly the financial allocation relationship between the central and local governments. Public finance at the central and local levels are organic components of the state's financial administration. To effectively give play to financial administration's functions and role, we must look at the whole situation and mobilize the positive factors of central and local financial administrations so that they form a combined force and their overall financial functions can be strengthened. Today, with respect to the structure of allocation of financial resources, first, we should guarantee the central government's lead financial administration role, stop the decline in its revenues and expenditures as a percentage of the country's total budget, boost the share of its revenues to around 60 percent of the total revenue, keep its expenditures at around 50 percent of the total expenditure, and end its financial plight, the year-in and year-out deficits, and its lack of regulatory and control capabilities, so as to enhance the central government's lead financial administration role and regulation and control functions. Furthermore, we should strengthen the basic role of local financial administration, so that local financial organs have enough financial resources to plan and make arrangements for local economic and other undertakings and suit measures to local conditions. To this end, we must define the central and local governments' respective duties, integrate their administrative and property rights, draw the line between central and local revenues and expenditures, and gradually create the conditions for implementing the system of separation of tax and profit and normalize the allocation relationship between central and local public finance. With respect to local financial administration, we should expand property rights and enhance the financial regulation and control capabilities at the provincial level to avoid dispersion of local financial resources.

C. We should perfect the financial regulation and control system and strengthen the financial regulation and control measures.

To enhance our macrofinancial regulation and control capabilities, we not only must adjust to the changes in economic development at different stages and adopt appropriate regulatory measures but also improve and perfect the financial regulation and control system and optimize its internal structure and the effectiveness of its measures.

1. We need to establish clear financial regulation and control goals. Faced with today's economic problems, macrofinancial regulation and control should meet the overall needs of rectification and improvement, and we should

establish regulation and control goals for different levels and at different stages. We need specific near-term measures and policies to solve today's urgent economic problems and also long-term financial development strategies and programs and regulation and control policies to promote fundamental improvement in the financial and economic conditions. [passage omitted]

2. We should expand the scope of wealth gathering activities and enhance financial administration's wealth gathering capability.

Financial administration should actively promote economic development and also actively gather revenues by promoting economic development. At present, with respect to increasing revenues, we must stabilize the current fund sources on the one hand and actively expand the scope of wealth gathering activities on the other hand and tap new fund sources. For example, we can raise taxes on individual economies, township enterprises, collective financial and service industries by a reasonable percentage and levy a land transfer fee, inheritance tax, fixed asset utilization charge, and regulation tax on income derived from higher prices and from sales of public housing and so on. We should raise the agricultural tax, rural native product tax, and business operation tax rates. At the same time, we can also tap new credit sources and make full use of idled or temporarily unused budgeted funds and extra-budgetary funds in disuse and increase the utility of financial funds.

3. We need to optimize the structure of financial expenditures and increase the use-efficiency of revenues. To change the current situation where constructive economic expenditures make up an increasingly smaller percentage of the total expenditure while spending on administrative undertakings is making up a larger percentage, we must increase the share of constructive economic expenditures, and specifically, we should increase investment in agriculture, energy and communications, raw materials and other basic industries and infrastructure in accordance with the industrial policy and reduce investment in nonproductive constructions and ordinary processing industries, so as to enhance financial administration's resource allocation capability. [passage omitted]

4. We need to improve the system of financial subsidies. In view of the very large sum of financial subsidies and the limited regulatory capability, we should take active steps to make some improvements. First, we must strictly limit the amount of financial subsidies and set an upper limit to the total subsidy as a percentage of the government's total expenditure and limit the amount of financial subsidy to within what the government can afford. [passage omitted]

5. We need to strengthen the management of extra-budgetary funds. At present, further strengthening the management of extra-budgetary funds is not only vital to strengthen macrofinancial regulation and control but is also an important way to make unified plans for and organize society's financial resources and strengthen the

overall equilibrium of the national economy. Thus, we should take economic, legal, and administrative measures to effectively guide and manage the extra-budgetary funds from the perspective of the nation's overall economic equilibrium so as to "enliven without bringing chaos and manage without being rigid" and let the extra-budgetary funds play a positive role but still serve the country's overall macroeconomic interests. At present, we should formulate a practical extra-budgetary revenue-expenditure plan and strengthen the accounting and auditing systems so that we have comprehensive, prompt, and accurate knowledge of how the extra-budgetary funds are being used and put those funds onto public finance's management track. Extra-budgetary funds should be spent in accordance with the state's economic policy and as stipulated by the public financial affairs system, and there must be a strict examination and approval procedure to really control the momentum of extra-budgetary investment and consumption expansion and correct the adverse effects on the macroeconomy caused by the lax management and improper use of extra-budgetary funds. As the amount of extra-budgetary funds increases, management tasks will also increase. We should strengthen the extra-budgetary fund management organs, staff them with more and better personnel, and truly manage and utilize those funds properly and with flexibility.

6. We need to perfect the tax system and enhance the tax lever's regulatory function. Taxation is an important lever for regulating the economy. Under the premise of giving full play to taxation's wealth-gathering capability, we should systematically balance and optimize the installation of the different types of taxes, the tax rates, and the targets of the current compound tax system to suit the changing economic development and in accordance with the desire to make the tax burdens equitable, encourage competition, and give expression to the industrial policy, so as to give play to taxation's function to regulate the economy. For example, we can make the enterprise income tax uniform and change the situation where enterprises in different trades with different economic components shoulder different tax burden, so that they can compete on equal footing. We can improve the bonus tax and personal income regulation tax and tighten the control over the increase in personal consumption funds, and we can also reform the circulation tax system and implement a comprehensive value-added tax to facilitate specialization and cooperation and the readjustment of the industrial structure and consumption mix. We can also tighten the control over tax exemptions and reductions to stress the mandatory nature of taxation.

D. We should speed up the installation of a financial legal system and perfect the financial supervision system.

In the rectification and improvement process, it is not only the objective need of the development of the socialist planned commodity economy but also an important part of strengthening the financial administration functions to speed up the formulation of a financial legal system. We must surmount the current chaotic economic and financial

conditions and set up a good, new order of socialist commodity economy, and we must speed up the installation of a financial legal system and further strengthen the financial supervisory mechanism.

1. We should set up and perfect a system of financial laws and regulations as soon as possible. First, we should perfect financial legislation so that there are laws to comply with and rules to follow. Today, we must especially strengthen the formulation of basic financial laws and regulations, such as budget law, law on the management of extra-budgetary funds, law on the management of state-owned assets, law on the management of national debts, law on the management of investments, and law on the management of financial credit and so on. By promulgating these basic laws and regulations, we can provide the legal protection to allow financial administration to harden the budget constraints, strengthen fund management, control investment and the increase in consumption funds, regulate the economic structure, and promote overall supply-demand equilibrium in society and so on. Second, we should sort out, revise, and amend the existing laws and regulations in a timely fashion according to the needs of rectification and improvement and establish a new order of socialist commodity economy, so that we can adapt to the changes of economic development and guarantee successful reform and development.

2. We must strengthen the concept of rule of law and administer financial matters according to the law and management money matters according to the law. On the one hand, we must actively strengthen financial legal education and strengthen the concepts of enforcement of the law and observation of the law. On the other hand, we must inspect and supervise the enforcement of financial laws and regulations more closely, and with everyday supervision, inspections at selective key points, and general inspection of financial and economy discipline and other measures, we can normalize, institutionalize, and standardize the financial supervision system. All violations of law and discipline, whether by units or individuals, should be dealt with seriously according to the law, so that we can gradually make obeying discipline and law a common practice and truly administer financial matters according to law and manage money matters according to law.

3. We need to strengthen the financial supervision organs and raise the standard of financial management and supervision. To assume financial supervision, we should strengthen the financial supervision organs and set up and perfect a financial supervisory network. Today, it is especially important that we strengthen the supervisory organs of the grassroots financial administration organizations in the counties and townships. Meanwhile we should train more and better workers. Financial supervisory personnel should meet high ideological and professional standards. They must be experts in their fields and also be able to handle matters impartially; they must have the courage to manage and also the ability to manage, so that financial management and supervision can serve reform and economic development even better.

**'No Optimism' for Present Financial Situation**

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[Article by Liu Yiqun (0491 0181 5028), edited by Lin Daojun (2651 6670 0689): "The Present Financial Situation Allows For No Optimism"]

[Text] Not long ago at the ninth general meeting of the State Council, Prime Minister Li Peng pointed out: This year the economic improvement and rectification has further achieved notable success. The economic situation is turning for the better; however, there is still a serious side to the entire economic situation. Similar to the whole economic situation, in the first half year the financial situation, concurrently with pushing improvement and rectification, supporting production, and developing circulation, had certain problems well worth studying and noticing; and a correct understanding of the current financial situation is significant to making timely improvement, performing well financial work, and promoting the further improvement of the economic and financial situation.

**1. Basic Successes of Financial Work in the First Half Year**

In the first half year, our consumption market continued to show signs of weakness, the economic effects of industry still showed no obvious improvement, the contradiction between supply and demand of funds was still too large, and social credit was in a worsened state. Under such conditions, the banking system in the whole country, based on the monetary credit and loan policy announced by the Central Bank early in the year and the policy measure relative to "making no change in the double tightening" guideline and exerting a suitable degree of readjustment adopted at the eighth general meeting of the State Council in March, did a large amount of work within its capacity and achieved noteworthy results.

1. Exerting efforts to organize deposits and expand the source of funds. In the first half-year, the banking system exerted efforts to organize deposits and, as a result, there was a large increase in the various kinds of deposits. Particularly by the end of June, the total amount of savings deposits of urban and rural residents in the country increased by 107.1 billion yuan, an increase of 42.7 billion yuan over the corresponding period of the preceding year, creating the best level for the corresponding period in history. The accumulation of a large amount of funds of over 100 billion yuan meant, on one hand, the absorption of a large amount of idle social funds and the reduction in the volume of money in market circulation, and on the other, the strengthening of the source of credit and loan funds for the banks and increasing the power in financial macroeconomic regulation. Under the conditions, in the half-year of the increase in the stockpiling of enterprise products, a large volume of funds being virtually sunk or sedimented and the enterprises being in stringent state regarding funds, the passive effects on promotion of a rise in production and maintenance of social stability cannot be underestimated. It should further be emphatically pointed out of

the increase in the whole amount of savings deposits in the first half-year, the savings deposits of residents in cities and towns occupied 76 percent, an increase of 27.4 billion yuan compared with the corresponding period of the preceding year. The source of this increased volume was that in the first half-year the salaries and wages of the staff members and workers in the whole country actually increased by 7.9 percent over the corresponding period of the preceding year, while the increase in bonus was only 2.9 percent, and even in certain localities the bonus was obtained under the condition of a negative increase. For the sake of absorbing deposits, the banks' extensive masses of cadres and staff members exerted greater efforts than in past years.

2. Making an adequate degree of readjustment in support of major needs. In the first half-year, the banks adequately readjusted the degree of stringency in credit and loans and in the administration of loans enforced the policy of leaning, and giving concurrent consideration, to the major projects. As reflected in the gross volume of credits and loans, by the end of June the various kinds of loans granted by the banks increased by 61.3 billion yuan compared with the beginning of the year and showed an increase of 40 billion yuan over the corresponding period last year. It was a period which showed the largest increase in the granting of loans for the corresponding period in history. Seen from the direction of the granting of loans, major support was given to state-run large- and medium-sized enterprises, particularly the 234 units of "double-guarantee" enterprises, state-run commercial enterprises engaging in wholesale and the supply and sales of major material resources, purchases of agricultural and sideline products and of grain, as well as a number of medium-sized and small enterprises found to have produced good economic efforts. Take, for example, the industrial and commercial banks. In the first half-year the volume of loans granted to the 234 units of "double-guarantee" enterprises, state-run commercial enterprises dealing in wholesale and supply and sales of major products, and purchases of agricultural and sideline products and grain amounted to 68 percent of the volume of newly increased loans. Readjustment of the tightening degree and of the credit and loan policy played a beneficial role in the following respects: rectifying the downward slide in industrial production, increasing the reserves of state-run commercial enterprises engaging in the wholesale trade or acting as agents for the sale of major products, augmenting the material tactics employed in the state's macroeconomic regulation and control, ensuring the purchases of agricultural and sideline products and grain, checking the increase in the number of enterprises stopping production or in a state of semi-stopping of production, cutting down the workers' unemployment rate, and so on. Concurrently, in the first half-year, the banks' loans for fixed assets increased by 7.5 billion yuan over the beginning of the year and increased by over five billion yuan over the same period of last year. The loans principally supported a portion of the projects under construction, or in



continued construction or undergoing technical transformation. The input of this portion of loans will help in expanding internal sales, increasing the production of goods for export and earning of foreign exchange, reducing the stock-piling of products (such as electrical machinery products, raw materials and so forth), and increasing the development stamina of the enterprises and the ability of readjusting the product structure.

3. Actively liquidating the "three-corner debts," and to a certain degree loosening and easing the state of the enterprises' funds. In the first half year, the banks, under the conditions of the shortage of funds and the relative difficulty of work, still employed a positive attitude, resorted to various means and forms and at different levels to undertake the collection of outstanding debts. Over the half year, they liquidated and settled "three-corner debts" amounting to over 78.0 billion yuan and to a definite degree and within a definite scope managed to ease and loosen the state of funds in the enterprises. This has rendered many of the enterprises temporarily relieved of the worries of indebtedness.

## II. Problems and Lurking Dangers

Although in the first half-year the financial situation was fairly stable and obvious accomplishments were made, in economic life many large and important profound problems were still not settled; hence, while concurrently there were effects achieved in financial work certain problems and lurking dangers that needed important attention and careful study were still in existence.

1. Increase in bank loans but reduction in enterprises' output. In the first half-year, the banks newly increased loans amounting to 61.3 billion yuan, an increase of 40 billion yuan compared with the corresponding period of last year. Although the granting of loans was increased in amount in advance, yet the role of stimulating the economy was not apparent. First, from January to June, the country's banks granted an amount of loans to industry which increased by over 100 percent over the corresponding period last year, yet during the same period, industry's output value increased by only 2.2 percent. Second, the enterprises' labor productivity rate, sales profits and taxes rate, and the interest and tax rate on capital all dropped conspicuously compared with the preceding year. The principal cause for this discrepancy between input and output was that in the first half year the stockpiling of the enterprises' products continued to increase, the number of enterprises suffering from deficits increased and as a result quite a portion of the loans were eaten up. According to the supervisory and survey statistics compiled by the industrial and commercial bank on 40,000 state-run enterprises, of the newly increased loans granted by the bank in the first half year around 70 percent were sedimented on account of the stockpiling of products. This condition illustrated that in the first half year in the great environment of the continued weakness of the market, for the sake of pushing production in motion and social stability, the banks were forced to grant in advance a large amount of loans, the reflection of the monetary credits and loans policy was that it was tight in name but lax in fact, and in reality the road taken was one which relied on the

exchange of credit and loans for a slow growth rate. Furthermore, the problem still lies in that at present our country's economy still belongs to the type of speed effects and that realization of the output value principally relies on speed. In order to increase the state's accumulations, there must be a definite development rate and, furthermore, there must also be a definite amount of capital input. Quite obviously industry's growth rate in the first half year could not meet the state's demand for increasing the accumulations. Naturally, in the second half year a faster development speed than that of the first half year is needed. Undoubtedly this will increase the demand for credit and loan. Additionally, such other factors as the purchases of agricultural and sideline products and grain, relatively more input into fixed assets and possible readjustment of the prices of certain of the products all require a large amount of bank loans for support. Under the conditions of society's economic effects generally being relatively poor and the turnover speed of funds obviously slowing down, this year's policy relative to controlling the gross volume of credits and loans faces a great difficulty before the highly brisk demand for funds, or, it may indeed be said, implementation of this policy will be impossible. Hence, we are facing the dilemma of making a choice of two difficulties, namely, economic growth and currency stability.

2. Simultaneous repayment and non-repayment of "three-corner debts," and repaying of their first portion and leaving outstanding the subsequent portion. Since last year the appearance on a nation-wide scale of an enormous amount of "three-corner debts" has become an important impediment to the normal operation of our nation economy. In the first half of this year, despite the banks continuing to actively help the enterprises to clear and liquidate their "three-corner debts," and enabling many enterprises to extricate themselves from the shackles of indebtedness, yet the phenomena are still very outstanding of simultaneous repayment and non-repaying and repayment first but owing again afterward. The situation so developed as if the indebtedness chain became longer with more repayment, impossible of being smoothed out and absolutely unbreakable. The current "three-corner debts" cover a wide area, involve enormous amounts and envisage serious consequences. Their manifestations are: 1) Because of the shortage of funds, certain localities and enterprises have been forced to resort to the barter system of exchange. 2) Suffering from the effects of the "three-corner debts," in the case of certain enterprises which originally had turned in a good performance in operation, management and economic effects, their economic effects suddenly made a downturn. 3) The fallacious concept of "law not being universally applicable" has violated the solemn character of the relevant economic and financial regulations, and given an opportunity to the outbreak of speculative practices. 4) As a result of the banks continuously putting in funds to help the liquidation of debts, the scale of funds available for use is reduced, and this has added to the difficulties in controlling currency issuance and restricting the scale of credits and loans. 5) The growth of the malicious practices of "nonrepayment of debts" on

the ground of "owing money being reasonable" and "owing money having its benefits" is a problem. Quite clearly, if there is no determination to solve the problem of the "three-corner debts" from the source and allow it to drag on, then it may further disrupt the monetary credit relations of whole society, affect the normal progress of production, circulation, exchange and distribution, and the consequences are unimaginable.

3. In the credit and loan structure, readjustment of the volume of increase has obvious effects but readjusting the balance or outstanding volume is difficult. In the past two years, particularly in the first half of this year, following the thorough implementation of the state's industrial policy and the slanting to one side of the banks credit and loans, the input direction of loans has been obviously improved. As seen from the structure, the benefits of increasing the volume are relatively obvious while readjustment of the balance or outstanding volume has been clearly difficult and could not make much headway. The principal causes and difficulties were: Subjectively, the banks, as special departments dealing in money, do not have much autonomous power. The granting of the loans and the size of the loans all suffer from interferences from administration at various levels. The amount of increase today will be the standing amount tomorrow. Loans under administrative intervention are nearly all closely related to departmental or local interests. Hence, the taking back of this outstanding portion is also related to the interests of the departments and localities while at present it is also related to certain social sensitive problems. As a result, the local governments do not support the banks recovering this kind of loans. Speaking from the objective side, in our country, the operation and management level of the majority of the enterprises is at a low level. They have few self-owned funds and their operational funds in production activities principally rely on bank loans and if the banks should retract the loans, the enterprises will be in a dire state. As a result, under the conditions of there being no protective mechanism, the banks find it difficult to attempt the readjustment of the balance or outstanding volume. Besides, many enterprises do not have the enthusiasm to readjust their product structure. They have a strong sense of depending on the state and their wishes to seek survival in competition and development are very low and all this is a difficult factor for the banks to improve or readjust their outstanding volume. The results of the difficulties in readjusting the balance or outstanding volume are: At a stable period of the economic policy, this portion of the essential element of production, though applied to production of products not in conformity with market demands or in contradiction to the state's industrial policy, frequently can be banned but not stopped; at times of retrenchment, although a number of enterprises, restricted from development, are forced to stop production or to almost-stop production because of the lack of funds, but because the elements of production have not been correspondingly shifted, or only partially shifted, once there is an opportunity, they will resort to various reasons to start anew, to again produce the antiquated products, or to waste energy resources and raw materials or to form a new stockpiling of products.

4. Lowering of the fluidity character of banks' assets and the increase in operation risks. The characters of fluidity, safety and profit-making are the three principles governing banks' operations. Whether or not a bank can fairly well insist on these principles, aside from the bank's own management and operations, is to a very large extent determined by the conditions of the borrower's employment of the funds and of sales in the market. If the enterprise's operation and management are good, and its economic effects are high, then the turnover of funds will be fast and there is protection for the bank to recover its loan funds. In the first half year, affected by market weakness, stockpiling of the enterprises products steadily increased, the economic effects were low and the turnover of funds was at an extremely low speed. As reflected in the banks' assets, a large amount of loans was swallowed up by the finished products, turnover of funds was difficult and the fluidity character of the assets was obviously at a low ebb. At present, 60 to 70 percent of the sources of the banks loan funds in our country have come from the savings deposits of the urban and rural residents which are readily convertible on demand. According to reason, only when accompanied or matched by highly fluid loans of can there be a rational arrangement between deposits and loans and can there be a reduction in operation risks. In reality, in the first half year, because of the serious stockpiling of the finished products of the enterprises, and the sedimentation of funds, invisible deposits which could be withdrawn readily were converted into loans which were poor in fluidity, and a great portion of the loans could not be recovered on time. Undoubtedly this greatly increased the potential risks in the banks' operations.

### III. Several Suppositions

1. Continuing the firm insistence on the double-tightening policy. In March this year the State Council put in force the policy measures of "No change in the double-tightening guideline but adequately readjusting its intensity." This policy measure was adopted against the drop in production in the first part of the year and definitely has played a big role in bringing about the subsequent revival in production. However, in the writer's opinion, the real intent of the measure of "adequately readjusting the intensity" of the guideline was to avoid the repetition of the old method of "applying to all tightening or loosening when and as it is necessary" and was a lively reflection of credit and loans regulating the economy in society's economic life. In view of the facts that in the first half of the year credits and loans tended to the lax side, the amount of loans tended to be too large the gross volume of the supply of funds was large and the enterprises' economic effects were poor, in the second half year the banks should continue to firmly insist on the direction of tightening while the major points of credit and loan work should be to control the gross volume, ensure and protect the major projects but suppress the rank- and-file projects, help the enterprises to improve their economic effects, endeavor to seek funds from effects and seek speed from effects. All the departments should not, because of the enterprises being tight in funds, all the time demand the banks to grant more loans and thus to spoil the tightening policy when it is half done and to increase the difficulties in improvement and rectification.

2. Thorough implementation of the industrial policy and firm insistence on structural readjustment. Seen from the angle of promoting the readjustment of the product structure of the enterprise, the current market weakness may not be a bad thing. Reviewing the experiences of the various countries of the world in their readjustment of the industrial structure and product structure, nearly all of them were related directly to the market. Against the current situation of market weakness and that in the past several years in the enterprises' readjustment of the product structure the force of pressure was not large and the results were not at all clear, we should not miss the opportunity of grasping the advantageous opportunity, earnestly implement the state's industrial policy and firmly and irrevocably carry out the structural readjustment. First, the banks should take the state's industrial policy as guidance, the credit and loan policy as the governing principle, the economic effects as the center, and the market as the condition, grant active support to and expand the production of those products which conform with the state's industrial policy and are marketable while regarding low-grade products which do not conform with the state's industrial policy, are substandard in quality and command high prices, the state should firmly stop making new loans to them, gradually call back the old loans, and along with amelioration and increase in quantity, gradually shift and improve their volume in stock. Second, the various localities and departments should take as the basic precondition the entire development strategy of the national economy, overcome closed-door ideas of locality concept and being "small but comprehensive," prevent redundant construction, and avoid the appearance of new structural imbalance because of errors in policy and investment in the course of structural readjustment. Third, in view of the long-term nature and complex character of industrial structural readjustment, currently we should place the major stress in structural readjustment on readjustment of the product structure: that is, through readjusting the product structure, improve the marketability of the products and enliven a portion of the stock volume. This will be beneficial to cultivating and elevating the enterprises' ability to meet emergency and to compete in commodity economy. Fourth, in order to enable structural readjustment to achieve concrete development, and to prevent new structural imbalance it is necessary to set up a responsibility system for investment (capital construction, technical transformation, and so forth) and such social security systems as those on bankruptcy and unemployment, and thus from the one side add to the innate pressure in structural readjustment. In short, the current relatively lax supply and demand environment in the market has offered us an opportunity, which is seldom available, for readjusting the product structure. Indeed, if we can correctly judge the situation, grasp the opportunity, and actively meet the challenge then this will provide a good alternative for making important changes in enterprise management and operation, economic effects, as well as in ideologies and concepts.

3. Smoothing out the debt-clearance relations and raising the enterprise's self initiative in clearing indebtedness. In clearing "three-corner indebtedness," the principal naturally should be the enterprises. The banks, though

taking part in this work, at most can play only a supplementary role. However, at the moment, because of various causes, the situation is a reverse one, and the banks have become the principals in the clearance while the party mainly concerned that is, the enterprises, are not activated and do not take the initiative. In view of this, the next step in this work should be to readjust the relations between the banks and the enterprises in these indebtedness clearance activities, place the enterprises in the position of the principals in clearing the outstanding indebtedness, support it with the effective supplementary administrative, legal and economic measures, first solve the problems of considering the delay in repaying loans is both beneficial and reasonable and further adopt other adequate measures to solve from the source the problem of outstanding debts.

4. Gradual improvement of the banks' assets and liabilities structure. Banks being special departments handling currency, any risks involved in their operation activities bring rather large effects on society. Hence, increasing the banks' operation and management level, managing their assets and liabilities scientifically, and raising their ability in withstanding risks have all along been among the important contents in the economic life of the various countries. Seen from the fact that at the moment the structure of the assets and liabilities of the banks in our country is not sufficiently rational, it is necessary to study at once this phase of the problem and endeavor in the initial period of the Eighth Five-Year Plan to initially form and perfect these theories, operational framework and currency system on the administration and management of the banks' assets and liabilities which is suitable to our country's economic development. The initial suppositions are: 1) Increasing the number and variety of the liabilities so the banks' liabilities are of different sorts; 2) developing the financial market, enlarging and increasing the channels for the individual's choice of investment and for the enterprises to raise and merge funds, and gradually lowering the too-high ratio occupied by individuals' savings in the composition of banks' deposits and the force of pressure exerted by the enterprises on loans from banks; and 3) formation of savings banks and banks for medium-term and long-term investments, on the one hand changing the current practice of the various specialized banks also engaging in accepting savings deposits as well as the irrational condition of the long-term employment of the sources of short-term funds, and, on the other hand, through controlling savings deposits, strengthening the central bank's macroeconomic regulation and control measures readjusting the specialized banks' structure of assets and liabilities, and reducing the risks in operations.

5. Strengthening the banks' autonomous power in credits and loans. In a country like that of ours which is backward in economic development, and in which localism thrives and there is much enthusiasm for investment, strengthening the autonomous power of the banks is an important measure to ensure the enforcement of the state's industrial policy, centralize the major source of



funds, overcome localism, reject administrative intervention, readjust the structure and facilitate the economy's sustained, stable, and coordinated development.

6. Setting up the system of enterprises self-replenishing their own circulation funds. That the enterprises should proportionately add to, and replenish their own circulation funds is an old problem that has been invoked for many years but has produced little results. Because of the yearly reduction in the amount of the enterprises' self-owned circulation funds, on the one hand, following the expansion in the enterprises' scale of production and the rise in prices, the contradiction between supply and demand of credit and loans funds has been aggravated and this has also made the enterprises' burden of interest, under the conditions of the difficulty of obviously raising the economic benefits, become daily heavier; on the other hand, with the enterprises having too little self-owned funds, naturally their dependence on the banks is increased which in turn reduces their ability of self development. At the same time, because the enterprises have too little self-owned funds, and cannot meet the needs for normal (fixed) production operations, this necessarily leads to large amounts of circulation funds borrowed from the banks being occupied for long-term use, the loans funds for circulation neither moving or circulating, or making any turnover, all of which reduce the banks' available funds on hand and increase their operation risks. The measure calling for the enterprises to proportionately add to, and replenish, their own self-owned funds is a problem related to the comprehensive balancing of credits and loans and strengthening the enterprises' self-development ability and vitality and may be recommended to the relative departments to make an earnest study thereon, so as to become soon an effective replenishment system. At the current stage of the impending signing of the agreements for the new round of contracted operation agreements, there appears to be the necessity of having their requirement of the enterprises making a proportionate replenishment to their self-owned circulation funds be incorporated into the contracting system, so as to improve the contracting contents and so through the various kinds of coordinating measures we can strive to enable a clear change of countenance in the problem of the enterprises being short of self-owned circulation funds by the end of the Eight Five-Year Plan period.

# Current Financial Problems, Solutions

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[Article by Jie Xuezhong (6043 1331 2535), Doctorial  
Candidate, China People's University's School of

Finance and Banking: "Problems, Ways, and Means—  
Theoretical Thoughts on China's Financial Problems"]

[Text] *It is the author's opinion that China is facing unprecedented financial problems. How to extricate ourselves from the current financial predicament is an important issue before us today. By analyzing the causes that led to the financial problems, the author suggests that the solution lies in the reform of the national income allocation mechanism.*

## 1. China's Major Financial Problems Today

China's current financial problems actually began in 1987. In that year, the state's revenue amounted to only 21.5 percent of the national income, a percentage lower than any other year in China's financial history. In 1988, revenue as a percentage of the national income continued to fall to 19.2, dropping below 20 percent for the first time. But we would not be thorough if we should proclaim that China had fallen into financial hard times by looking at the revenue decline alone. A proper analysis of the financial situation should combine the relative revenue level, the absolute scope, the level of financial expenditure, and the objective public finance needs.

In terms of the absolute scope, this country's total revenue for 1987 was 236.89 billion yuan, 4.8 percent higher than in 1986; its 1988 revenue was 262.802 billion yuan, 10.9 percent higher than in 1987. It should be pointed out that inflation was running high in 1987 and 1988, with rates at 7.3 percent and 18.5 percent, respectively, much higher than the rate of revenue increase. In other words, if we take inflation into consideration, there was negative increase in fiscal revenue for both 1987 and 1988. If we look at the relationship between revenue and expenditure for those two years, revenue fell short of expenditure in both years, with deficits of 7.959 billion yuan and 7.855 billion yuan, respectively. Finally, let us look at the objective, quantitative demand for public funds. Analysis of demand for such funds is the key to determining the state's financial health, because even if a country's revenue and expenditure may be in decline, if they remain above or are at par with its public finance needs, we cannot say that it is in financial trouble. The objective, quantitative demand for public funds basically is the amount of funds the government needs in order to fulfill its essential functions. Today, worldwide, the principal method used to assess a country's demand for public funds is to make an international comparison, and the main indicator is total revenue as a percentage of the national income. The International Monetary Fund's 1987 data showed that for most developed and developing countries, total revenue usually amounts to more than 30 percent of the GNP (see table below.)

Country	United States	France	Great Britain	France	Hungary	Romania	India	Singapore	Egypt	Brazil
Percentage	33.8	47.0	43.5	46.2	60.0	36.4	24.3	38.5	40.7	33.2

But China's 1987 fiscal revenue was only 21.4 percent of its gross domestic product [GDP], far below the standards of the other countries. According to 1988 data compiled by the

World Bank, in 1985, among the developing nations, the central government's income alone amounted to 23 percent of the GNP, but in that year, the income of the Chinese

central government only came to 8.5 percent of the GNP, and even if we compare the total revenue to its GNP, it only came to 22.4 percent, which is still below the average central government's income as a percentage of the GNP in the developing nations. Turning to total expenditure: According to World Bank statistics, in 1985, for the developed and developing countries, the central government's total expenditure as a percentage of the GNP was 26.4 percent and 28.6 percent, respectively. In the same year, the figure for China was only 9.7 percent, and even for the country as a whole, total expenditure only came to 21.8 percent of the GNP, also below the average of all developing nations. From the point of the long-term spending trend: Between 1980 and 1985, government expenditure as a percentage of GNP has at least tripled in all major Western developed countries. Between 1972 and 1985, among the developing nations, the central government's expenditure as a percentage of GNP has also increased from 18.7 percent to 26.4 percent. Not so in China where the percentage has been falling in recent years. Compared to 1975, the percentage in 1988 has dropped by nearly 10 percentage points. There is no need for further analysis. It is very obvious that compared to other countries, the Chinese Government's revenue and expenditure and the state's total revenue and expenditure are only a small percentage of the national income, the GNP, or the GDP. We can logically infer from these facts that there is a wide gap between the amount of funds the state actually owns or has at its disposal and what it objectively needs. Assume that on the average, a developing nation's revenue is about 30 percent of its GNP (the actual figure may be higher), and assume this is the amount of public funds China needs, the gap between what we actually have and what we objectively need is approximately 80 billion yuan, or around 8 percent of the GNP (based on 1988 figures). What is worth mentioning is that as a socialist country founded on the system of public ownership of means of production, the Chinese Government has more economic responsibilities than the governments of most developing nations, and therefore it has greater objective need for public funds than the others, and if we take this into consideration, our earlier estimate of the fund shortfall may be too conservative; the actual gap may be even wider.

## II. Some Thoughts on Solving the Financial Problems

The biggest financial problem China is facing is the lack of funds—revenue as a percentage of the national income is too low. Thus, the strategic goal in extricating ourselves from this financial predicament can be summed into one thing: Increase revenue and the state's share of revenue as a percentage of the national income. But setting the goal is only the beginning to solving the problem. To achieve this goal, we must have effective means and guarantees. Theoretically speaking, in order to increase revenue, we can increase production, increase enterprise economic efficiency, and change the national income allocation mechanism and so on. But under China's current situation, the lack of revenue is not due to slow production growth. On the contrary, China's financial problems are due to accelerated economic growth and production expansion. Thus, we cannot expand production as the primary means to solve

our financial problems. Poor economic efficiency and low realized enterprise taxes are among the main causes of the economic problems, but they are not the root causes of inadequate revenue proportional to the national income. What directly constrains the relative size of the revenue is the mechanism that allocates the profit society has already generated and not the mechanism which generates profit. Moreover, improving economic efficiency is a fairly long process and cannot be the primary means to solve our immediate and urgent financial problems. Thus, to solve the financial problems, naturally, we must turn to the reform of the national income allocation mechanism. This theoretical deduction happens to fit in with the causes of China's financial problems.

Since 1979, China has implemented in the economic realm a reform which centers around expanding enterprises' right of self-determination and enhancing enterprises' vitality. There is no doubt that the direction of this reform is correct. But due to outside factors, the reform has in essence changed into an unprincipled tax reduction and profit concession to enterprises. It is estimated that since 1979, enterprises have accumulated 758.25 billion yuan in economic benefits through tax reduction and profit concession. While enterprise profit retention came to only 12.3 percent of enterprise realized profit in 1979, the profit retention rate has reached 55.6 percent by 1988, and enterprises and the departments in charge of them had 181 billion yuan in extra-budgetary funds on hand, which accounted for 15.7 percent of that year's national income. This percentage is much higher than the central government's share of income relative to the national income. There is no need for explanations; it is clear that the increase in enterprise profit retention implies a decrease in tax revenue delivered. Obviously, the steady decline in revenue is closely tied to the steady increase in enterprise profit retention in recent years. Thus, lowering enterprise profit retention by a reasonable amount is naturally one way to tackle the financial problems.

The higher level of enterprise profit retention does not reflect fully the change in the pattern of enterprise profit allocation. Since 1979, China's state-run enterprises have been expanding the scope of pre-tax debt payment and using more tax money to pay debts. By 1988, the size of pre-tax debt payment and payments using tax revenue have grown to 18 times that in 1979, totalling 104.4 billion yuan over the 10-year period. If we treat the 104.4 billion yuan as enterprise pre-tax profit prior to paying debts and impose the applicable 50 percent tax rate, over the 10-year period, enterprise pre-tax debt payment would have generated 52.2 billion yuan in tax revenue. In other words, pre-tax debt payments alone have reduced the state's income by more than 50 billion yuan. Since this kind of income reduction is incurred before enterprises pay their taxes, it is not included in the enterprise profit retention rate. If this factor is taken into account, we must also modify the enterprise profit retention rate, and instead of 55.6 percent, it would be over 60 percent. Facts prove that pre-tax debt payment

and debt payment with tax money are not good ways to grant financial favors. They not only encourage enterprises to be dependent on financial favors but tend to make inflation worse. Reforming this system not only will ease the above-described conflict but will, to some extent, solve the financial problems, killing two birds with one stone.

Accompanying the change in the enterprise allocation system is the rapid increase in the amount of funds owned or controlled by various government institutions in China. The reasons for this increase are: on the one hand, the size of these institutions has increased and naturally they need more funds. On the other, since these institutions have switched to a fund management method similar to that of the enterprises, their fund sources now include not only what they earn and spend as allowed by state policies but also a substantial amount of questionable earned-income generated by their direct participation in society's product allocation. In 1979, these institutions had less than 7 billion yuan in extra-budgetary funds; by 1988, the figure has grown to 41.5 billion yuan, increasing by more than 5-fold over a 10-year period. Someone has figured out that if these institutions had kept their extra-budgetary funds to under 10 billion yuan in the last 10 years, China could have avoided all deficits. Thus, reducing the amount of funds at the administrative institutions' disposal is also one way to tackle the current problems.

We should also realize that since 1979, China's agriculture and tertiary industries have undergone rapid growth. Their output value in 1988 accounted for 52.8 percent of the GNP, but they only provided around 20 percent of the state's revenue. Agriculture alone accounted for 27.2 percent of the country's GNP but contributed only 4 percent to state revenues, far below the 20.2 percent it had contributed back in 1952. We have to admit that some disparities remain in the exchange between industrial and agricultural products, and therefore we cannot use the amount of tax revenue the agricultural sector delivers as the only standard for gauging that sector's financial contribution. But by 1988, national income attributable to agriculture has reached 381.8 billion yuan, or approximately 33 percent, and the rural net income per capita has reached 545 yuan; the peasants are on the way to being fairly well-off, however, despite all this, agriculture's contribution to the state income has continued to decrease, resulting in a rural per capita contribution to the state's revenue of only 10 yuan a year. This cannot be considered normal. Similarly, in 1988, the output value of China's tertiary industry came to nearly 25 percent of the GNP, but it contributed only around 15 percent to the state's total revenue. The percentage of revenue its contributes is out of line with the proportion of output value it generates. The ratio is about 0.6, far below the industrial sector's 1.1 ratio. In other words, each worker in the tertiary industry contributes a little more than 50 percent of what the average worker in the industrial sector contributes to the state's revenue. Overall, the tertiary industry has low production costs and high efficiency, and its profit rate should

be no lower than the industrial sector's, and therefore its relative contribution to the state revenue should not be lower than that of the industrial sector. The main reasons for the abnormal phenomenon in China are, among other factors, the tertiary industry is poorly managed and the tax system has many loopholes; thus, there is great loss of revenues. It appears that raising agriculture's share of taxes and tightening the collection and management of the tertiary industry's taxes are important means to deal with the financial problems.

In fact, the tertiary industry is not the only industry plagued by tax collection and management problems and tax loopholes. Other industries, businesses, and sectors too have similar problems. Thus, further tightening tax collection and management and closing the loopholes are also ways to increase revenue.

So far we have analyzed the causes and solutions to China's financial problems with respect to the above five areas. There is no doubt that to solve the financial problems and increase revenue, we must begin in those five areas. Now the question is, what policies and measures should we adopt in order to reach our goal?

Since 1983, the Chinese Government has initiated one method after another, such as collecting key energy and communications construction funds from enterprises and apportioning all sorts of bonds (in essence, they are forced savings), in its attempt to ease the financial difficulties. Looking back, these methods may have deviated from the economic tracks, and to some extent have disrupted economic order, damaged the government's reputation, and dampened enterprises' production enthusiasm. Although to an extent they may be able to ease the immediate financial problems, they are not permanent, long-term solutions, and therefore should not be used as ways to increase revenue in the new era. Adding new taxes, such as profit regulation tax, enterprise profit retention tax, and investment direction tax, are also ways to increase revenue. Theoreticians and practitioners alike favor this latter approach. But we must realize that there are already more than 40 different types of taxes in China, which ranks among countries with most taxes in the world. If more new tax categories are added, it not only will undermine economic stability but will also make enterprises and citizens resent paying taxes even more and may lead to political instability. Looking at this from a different perspective, China's financial problems are not the result of too few taxes and inability to generate income but because the tax system has too many constraints and cannot function effectively. So long as the original tax categories cannot fulfill their proper functions and the system is plagued by loopholes, adding new tax categories will often make the existing taxes even less effective, create even more loopholes, and drain even more tax revenues. Thus, adding new taxes will be futile. Another approach is to freeze workers' wages, enterprise retained profit, and other extra-budgetary income by administrative order so as to divert more of the incremental national income to the



treasury each year, change the national income allocation pattern, and increase the proportion of state revenue. But putting aside the question of whether this method would work or not, even if it was feasible, it would greatly damage the national economy and cause social upheaval. It would not benefit the country nor its people. Up to this point, there is only one choice left if we want to extricate ourselves from the economic predicament. We must further reform the tax system and other relevant economic management systems. By changing the economic mechanisms, especially the national income allocation mechanism, we can change the national income allocation pattern and increase the share of state revenue. Looking at China's real economic conditions, this may prove to be a workable approach.

The roots of China's current financial problems can be traced to the five causes analyzed earlier, but these causes can be summed into one element: It is because reform has been less than thorough, some measures have been suspended, some measures were never implemented, and several reform programs are still not in place. Increased enterprise retained profit is an avoidable or natural economic phenomenon in the enterprise reform process. It is also a necessary measure to arouse enterprises' reform enthusiasm. The crux of the problem is, this process must not drag on, and the increase in enterprise profit retention must not exceed a certain limit. As soon as possible, we should make a transition to the target system where the allocation relations between the state and enterprises is more reasonable. The mistake this country is making is that it has kept the transitional system for too long and is even equating the temporary system with the target system. Similar problems exist in the reform of agriculture, the tertiary industry, and the administrative institutions. Reform must provide some material incentive, because only if the people get some tangible benefits out of the reform will they take part in the process wholeheartedly. Giving the peasants and other workers some tangible benefits at the beginning of reform is a necessity, but the measure cannot be permanent, nor can we keep on increasing the benefits, otherwise, if everybody gains by cutting the ground from under the government's feet, the reform is bound to fail. Here there is also the question of how to link the transitional mode of giving the people some incentive and the target mode where the government and the people share the benefits, and China has failed to handle this problem properly and has taken too long in making the transition, and therefore the financial difficulties are inevitable. It is because of this conclusion that we have decided that the final solution to our current economic problems lies in thorough reform, in changing over from the transitional mode to the target mode as soon as possible. All other measures outside of the reform process to increase revenue are useless and futile and may even added to the financial difficulties and become obstacles to China's long-term economic stability.

### III. A Tax Reform Measure That Aims To End the Financial Problems

Solving the financial problems is not the only goal of tax reform; it is not even the central goal of tax reform. But under very difficult financial conditions, tax reform must serve to extricate us from our predicament. Judging by China's current situation, to end the financial problems, we must reform the current improper tax system and correct the national income allocation pattern. This basically coincides with the goal of reform itself. Thus, in designing the current phase of tax reform, we should pay more attention to the demand for public funds without violating the principles behind the overall economic reform and the tax reform.

One of the main causes of today's financial problems is excess tax reduction and profit concession which give enterprises too much retained profit. This situation in turn is tied to the existing system of allocation between the state and enterprises. China's current state-enterprise allocation system combines state-imposed taxes with enterprise delivery of contracted profit, and in fact, it is primarily a contract responsibility system. Not only is most of the income tax contracted, but some circulation tax is also contracted and fixed. Since the contract system guarantees enterprises' vested interests and also gives them a substantial portion of the incremental profits, and the contracts are fixed for a term of several years, the implementation of this system can only benefit enterprises at the state's expense. Looking at this from a different perspective, the contract system in fact takes the place of enterprise income tax, and with that, the ability of the enterprise income tax system to generate income with versatility and flexibility is completely destroyed. The state's tax revenue can no longer keep pace with the increase in national income. Figures showed that the elasticity of revenue increase relative to the increase in national income in China during the Sixth Five-Year Plan period was 1.167. That is, for every yuan increase in the national income, revenue increased by 1.167 yuan. Between 1979 and 1988, however, this elasticity has dropped to 0.946, of which, the elasticity of enterprise income tax relative to the increase in national income has fallen from 1.3 in 1983 to 0.8 in 1988. Thus, prompt reform of the improper enterprise allocation system and, going a step further, changing the enterprise income allocation pattern that skews toward enterprises have become the key to increasing the state's revenue share. After repeated discussions and analyses of the enterprise allocation system by theoreticians and practitioners, the direction of reform has become clearer. We must reinstate the enterprise income tax system, abolish all forms of tax contracting, implement the contract system wherever possible, and build a new allocation mechanism where revenues and enterprise profit increase simultaneously or quasi-simultaneously (to a certain extent, revenue may increase slightly faster). Of course, reform of the enterprise allocation system should be accompanied by the elimination of pre-tax debt payment and debt payment with tax money and other specific measures, and it should be taken into account

that the elimination of pre-tax debt payment may have serious effects on enterprises and that the implementation of after-tax contracting will require a certain percentage of profit as base, and therefore after reform, enterprises' income tax rate should be lowered somewhat; that is, the reallocation percentage of enterprise retained profit should be lowered. But no matter what, after the system of allocation between the state and enterprises is straightened out, there will be some assurance of sustained and steady increase in state revenues. At least, the state will be allocated a larger share of the incremental revenue, and we will not see the abnormal situation where economic growth is accompanied by steady decrease in revenue.

Another issue which must be addressed during financial reform is how to handle the administrative institutions' extra-budgetary funds. Some people have suggested that except for the state-owned enterprises which may retain a modest amount of extra-budgetary funds, everything else should be considered state revenue and be allocated centrally. This proposal has its merits but may be too extreme. Allowing government institutions to have some extra-budgetary funds is a generally accepted practice worldwide. Every government institution in every country has some miscellaneous revenues and expenditures which are items not easily included in the budget. To put those revenues and expenditures under the central government's budget is not necessary and doing so may even diminish the relevant units' enthusiasm in tapping financial resources. The problems China has run into in this area is not whether there should be an extra-budgetary fund heading but how to prevent the relevant administrative institutions from using improper and illegal means to increase their extra-budgetary income recklessly and even let their extra-budgetary funds crowd out their budgetary receipts (the many apportionments and charges fall into this category). It seems to me that to turn this situation around, a more realistic approach may be to redefine the source and direction of use of the institutions' extra-budgetary funds by government decree or order and set a fixed quota to control the funds. For example, we can use a per capita percentage or set a budgetary to extra-budgetary fund ratio, etc. In the event the amount of extra-budgetary funds exceeds the quota, if the unit is under budget appropriation, the above-quota portion will be offset by a reduction in appropriation; if the unit is responsible for its own revenue and expenditure, a fixed percentage of the above-quota portion should be handed over to the treasury. This method no doubt will dampen the relevant units' enthusiasm in raising funds somewhat, but at the same time, it will also keep the extra-budgetary funds from bloating, keep the units from securing funds from improper sources, and make sure that state revenue will not be overwhelmed by extra-budgetary funds. This will facilitate the smoothing out of society's fund circulation channels.

In order to increase the proportion of state revenue, we must also further perfect the laws pertaining to taxation and tax collection. We have already discussed the tax problems plaguing the agricultural sector and the tertiary

industry. As for the solutions, with respect to agriculture, we should restructure the old agricultural tax system which is based on the rural people's communes and which is more suited to the characteristics of the natural economy. In its place, we should install an agricultural product tax and agricultural income tax which meet the needs of the production and exchange of agricultural commodities. With regard to the tertiary industry, we should strengthen the tax collection laws by further perfecting the tax system and plug the loopholes that are draining the state's tax revenue. In short, we should collect taxes promptly and in full whenever possible. Tax collection in the tertiary industry is often obstructed by all sorts of apportionments. Many taxpayers have to pay scores of different types of taxes and fees each year, most of which are imposed for different reasons by governments at different levels and by their subordinate organs, and the revenues do not go into the treasury. The many apportionments diminish the seriousness and authoritativeness of tax collection on the one hand, and on the other hand, since all these expenses are considered a cost, they also reduced the state's tax revenue. Thus, the improvement of the tertiary industry's tax system must be accompanied by sorting out these apportionments. This can be accomplished either by prohibiting all apportionments or by turning the irregular charges into regular taxes, if possible. It should be pointed out that a crude tax system, backward tax collection methods, and tax fraud and evasion are widespread problems plaguing every tax category in China. The urgent need to perfect the tax system and strengthen tax collection is by no means limited to the agricultural sector and tertiary industry. Similar problems can be found in the state-run enterprises' income tax, collective enterprises' income tax, personal income tax, product tax, value-added tax, and business tax. The problem with personal income tax is particularly serious. Someone has estimated that the amount of personal income tax (including personal income regulation tax) due is nearly three times the amount actually collected. In other words, only about one-third of the personal income tax due is collected. The reasons are, on the one hand, people only have a vague concept about taxation, and tax evasion is widespread. On the other hand, the tax law is unsound, and tax fraud is rampant. Faced with the reality, we must increase propaganda about taxation and perfect the tax system. Most foreign countries have adopted the system requiring the taxpayers to submit income tax returns, and failing to do so would constitute tax evasion and would warrant stiff penalties. China should consider this system as a way to make the taxpayers take responsibility for their tax payments and reduce tax evasion. In short, as long as there are serious financial problems and loss of tax revenues, it is imperative that we make strengthening the tax law and stopping all tax loopholes an important measure.

Finally, it should be pointed out that efforts to end the financial difficulties must include the readjustment and reform of the current financial relationship between the central and local governments, because the root cause of the financial problems is not only inadequate revenue but also the central government's small share of revenue

relative to the total revenue. To change this situation, there are several possibilities: First, we can raise the central government's share when allocating income between the central and local governments. Second, the central government can impose new taxes which are not part of the central-local allocation system (that is, the revenue will only go to the central government). Third, we may make radical changes in the central-local allocation system and implement a separate tax system. Comparing these choices, the separate tax system may be far superior in meeting the central government's financial needs, delineating central and local rights and responsibilities, and in mobilizing the localities' enthusiasm in raising funds, etc., and it is a target mode generally favored by theoreticians and practitioners. The question now is how to put this choice into practice. Due to limited space here, we cannot go into a detailed discussion and can only propose a crude outline on how to implement the program: First, in accordance with the principle of separation of property and administrative rights, the central government may set the percentages when allocating income between the central and local governments (some have suggested 60 percent) and figure out the amount of funds it needs (60 percent times the total revenue). Next, we can determine the central government's tax categories by the amount of funds it needs. To avoid conflicts, we should not install any revenue-sharing taxes, that is, all taxes other than central taxes are to be local taxes. Lastly, after satisfying the central government's fund needs, the localities may levy local taxes according to local characteristics and may impose new taxes within limited scopes. The central government should subsidize localities unable meet their own financial needs.

#### Financial Departments Work To Clear Debts

OW0702085491 Beijing XINHUA in English  
0839 GMT 7 Feb 91

[Text] Beijing, February 7 (XINHUA)—Financial departments across China cleared up 11 billion yuan in debt defaults in the latter half of 1990, the PEOPLE'S DAILY reported today.

Twenty-two provinces and autonomous regions have cleared half of the debt defaults owed by various industrial enterprises. Seven areas, including Jiangsu Province and the cities of Harbin and Beijing, have cleared up 80 percent of local debts, the paper reported.

State Council officials have urged administrations at all levels to place debt default clearance on their work agendas.

Planning, banking, material supply and trade departments are urged to coordinate their efforts in this regard, according to the paper.

#### Bank of China Data Processing Centers Join SWIFT

OW2802225091 Beijing XINHUA in English  
1627 GMT 28 Feb 91

[Text] Shanghai, February 28 (XINHUA)—The three data processing centers of the Bank of China (BOC) at its Beijing headquarters and Shanghai and Guangzhou branches today officially hooked up with terminals at 3,049 banks and financial institutions in the world, according to a senior bank official.

The 3,049 banks and financial institutions are customers of the Belgium-based Society for Worldwide Interbank Financial Telecommunication (SWIFT), a nonprofit world organization.

Yuan Jiming, deputy chief engineer of the BOC, said that in comparison with teletype, telegraph and postal communication, the telecommunication system is more efficient and money-saving. He added that its customers can conduct financial business, such as remittance, foreign exchange and securities transactions, through the network.

The BOC, China's foreign exchange bank, is the first member of the network from the Chinese mainland. It joined the system in 1985.

Yuan said that the three centers will be linked with BOC branches and subbranches in China during the Eighth Five-Year Plan period (1991-1995), thus forming a domestic financial telecommunication network.

He said that the leading banks on the mainland have joined, or are preparing to join SWIFT.

### MINERAL RESOURCES

#### Hebei County Gold Production Profiting

SK0403072491 Shijiazhuang Hebei Provincial Service  
in Mandarin 2300 GMT 28 Jan 91

[Text] Qianxi County has produced more than 10,000 liang of gold every year since 1983. In 1990, the county produced more than 16,250 liang of gold, and earned a profit of 3.7 million yuan, both hitting an all-time high. The county's gold mines are now able to carry out gold prospecting, mining, dressing, and smelting, and recovery and treatment of waste residues in a coordinated process. Its daily mining capacity is 300 tons, and annual refined gold production capacity is 20,000 liang. The county was recently designated as an advanced gold production county of the country.

### INDUSTRY

#### Agenda for Statistics Work in 1991

91CE02804 Beijing ZHONGGUO TONGJI XINXI  
BAO in Chinese 3 Jan 91 p 3

[Article: "The Agenda for Statistics Work Throughout China in 1991—To Improve Basic Statistics Work.



**Enhance Quantitative and Departmental Analyses, and Speed up the Pace of Statistical Methods Reform"]**

[Text] The year 1991 is going to be a key one for continuing to push on with improvement, rectification, and deepening of reform, and is also the first year of the Eighth Five-Year Plan. We must conscientiously adhere in our statistics work to the spirit of the Seventh Plenary Session of the 13th CPC Central Committee and the key directives of leading Central Government comrades on improving our basic statistics work and enhancing our quantitative and departmental analyses, continue to emphasize the quality of our statistical data, further raise the quality of our statistical analysis, carry out all statistics reforms comprehensively and completely, and bring our overall statistical information, advisory, and supervisory capabilities into full play, in order to provide quality service for the sustained, steady, and coordinated development of our national economy.

**I. We Must Emphasize the Quality of Our Statistical Data To Enhance Our Quantitative and Departmental Analyses**

1. Accurate statistical data is the lifeblood of statistics work and the basis for good quantitative and departmental analyses. All regional, departmental, and particularly local (municipal) and county statistics agencies at the grass-roots level must continue to make great efforts to exercise a high degree of political responsibility, by taking all effective steps to counter all factors that have an adverse impact on, in order to further improve, the quality of statistical data. Emphasis should be placed on evaluating the quality of data for statistical indexes, such as our GNP (for tertiary industries in particular), the collective and individual part of our overall investment in fixed assets, our GVIO [Gross Value of Industrial Output] at the village level and below, our GVAO [Gross Value of Agricultural Output] and grain and cotton output, the collective and individual part of our overall retail commodity turnover, the per capita net income of our peasants, the per capita cost of living and income of our urban residents, and payrolls.

2. Enhancement of quantitative and departmental analyses is an important demand that has been placed on statistical work by party and government leaders at all levels to help make policymaking and management more scientific.

All regional and departmental statistics agencies must take effective steps to focus closely on continuing to promote improvement, rectification, and furthering reform, uphold and improve overall balance, concentrate their efforts on the goals and tasks of adjusting the economic structure and improving economic efficiency, as well as other key issues that urgently need to be resolved, and conduct quantitative and departmental analyses vigorously, in order to provide timely, scientific, and feasible quantitative policymaking and management advice, views, and countermeasures for party and government leaders at all levels. The following seven priorities are recommended: 1) monitoring of and

advance warning about national economic operations, 2) crises and difficulties in improvement, rectification, and furthering reform, 3) existing issues to advance macro-economic regulation and control objectives, 4) the aims of and steps taken to launch "Year of Quality, Variety, and Efficiency" activities, 5) the key issues in the Eighth Five-Year Plan, and plans for the decade, 6) the key socioeconomic development issues during the Seventh Five-Year Plan, 7) the relationship of population control to economic development and improvement of living standards.

3. We must take full advantage of all news media to improve the release of statistical information, further socialize statistical information, and better develop the role of statistics in understanding circumstances and building a socialist spiritual culture. We must establish and perfect a statistics news network, and do a good job of all tasks related to the biweekly publication of ZHONGGUO TONGJI XINXI BAO [CHINA STATISTICAL INFORMATION REPORT]. We must further establish and perfect our domestic statistical information advisory service network, gradually increase our overseas statistical information advisory service network points, and strive to improve the quality of our statistical information advisory service.

**II. We Must Reform Local Statistics Agencies Conscientiously, in Order To Gradually Improve Our Basic Statistics Work and Qualifications**

1. In accordance with the spirit of the central government on speeding up reform of local agencies, all statistics departments above the county level must take active steps on their own initiative to establish contacts with the departments concerned, and conscientiously make all preparations for "the three fixed targets" for local statistics agencies.

2. We must build and perfect an urban and rural statistical information network, in order to ensure that our statistical information channels are sensitive and open. In cities, we must speed up the establishment of district statistics offices under municipal jurisdiction, do a good job of organizing, providing professional skills, and establishing rules for district statistics offices, enhance the overall coordination capabilities of municipal statistics bureaus, better centralize the leadership of statistics work throughout cities, and continue to emphasize experimental work with neighborhood statistics centers. In rural areas, we must continue to do a good job of consolidating, improving, and perfecting township statistics centers, and actively promote the "Standardization Plan for Rural Grass-Roots Statistics Work." Moreover, we must continue to explore statistics reform at the county level, and gradually popularize successful experiences.

3. We must set up and perfect an enterprise statistical information network focused on comprehensive statistics, and take active steps to promote the standardization of basic enterprise statistics work. Under local government leadership, statistics departments in all areas must join up with all responsible professional departments to formulate

and enforce plans for the standardization of basic enterprise statistics work. All areas and departments must conscientiously sum up the experiences of large enterprises in perfecting comprehensive statistics agencies, and of small enterprises in setting up comprehensive statistics personal responsibility systems, and take active steps to improve and gradually popularize them.

4. We must continue to implement the directives of leading central government comrades on gradually improving working and living conditions for statistics workers.

### **III. We Must Speed Up the Pace of Statistical Methods Reform**

1. We must act realistically and in accordance with the principle of keeping a foothold in the present while aiming at the future, to closely combine current statistical methods reforms with the establishment and perfection of a new accounting system for the national economy.

2. We must emphasize pilot projects in experimental accounting in preparation for a new accounting system for the national economy. Based on summing up the experience of pilot projects in all areas, we must revise our added value statistical methods, conduct accounting pilot projects by profession in accordance with the need for popularization and application, and strive to include the added value of industry, agriculture, and the construction industry in 1991's annual report. We must take active steps to launch national and provincial level accounting pilot projects, and qualified provinces (autonomous regions, and cities) must strive to begin to set up basic provincial (autonomous regional, and municipal) accounting systems for the national economy. We must coordinate statistical, accounting, and professional work, and make all preparations for the new accounting system for the national economy.

3. We must gradually reform and perfect our existing statistical methods based on the principles of need and possibility. Our reform priorities for 1991 are as follows: to correspondingly improve our relevant statistics in line with the demands of "The Year of Quality, Variety, and Efficiency"; to improve our financial statistics in line with the needs for added-value accounting, economic efficiency, and income distribution; to begin to establish pricing statistics that are in line with disbursement of legally accounted domestic gross output value, to begin to set up magnitude-of-value statistics for the nonmaterial production sector, and to join together with the State Science and Technology Commission and the State Education Commission to draw up as quickly as possible national regulations for collecting S&T statistics.

4. We must further improve our economic, social, and S&T statistics indexing system, and our statistical classification indexing and coding systems. In order to clear up our existing indexing base, we must draw up a set of economic, social, and S&T statistics indexing systems and specialized systems that are in line with our new

accounting system for the national economy. Moreover, we must speed up the formulation and application of various urgently needed statistics indexing and coding systems, to help put into effect our new accounting system for the national economy and establish a data base.

5. We must vigorously promote the establishment of "one set of forms" for basic-level statistics. "One set of forms" for the rural grass-roots level must be fully promoted in most provinces, autonomous regions, and cities throughout China. As to "one set of forms" for industrial enterprises, the State Statistical Bureau must emphasize the formulation of a national plan and choose some cities in which to conduct pilot projects. We must also emphasize the development and testing of "one set of forms" for other professions at the grass-roots level.

6. We must emphasize launching of a campaign to inventory and reorganize statistical report forms. The State Statistical Bureau must organize certain provinces, cities, and responsible departments to focus on inventorying and reorganizing statistical report forms and, aimed at the new factors and problems that have appeared in the management of statistical report forms, submit amendments to the "Statistical Report Form Management Regulations" to the State Council for approval and implementation.

### **IV. We Must Emphasize Development and Application, by Continuing To Promote Statistical Information Automation**

1. We must emphasize computer development and application. We must fully promote data processing software to integrate conventional statistics, and further our application of computers.

2. We must take active organizational and preparation steps for the setting up of a statistical data base. We must draw up as quickly as possible plans for setting up a national data base, take positive steps to establish in a planned way a three-level national, provincial, and local (municipal) census data base, and conscientiously launch pilot projects in setting up data bases for overall statistics, investment statistics, commercial circulation, overall industrial statistics, and rural household surveys.

3. We must do a better job of processing data for the Fourth National Census and routine data. As the task of processing data for the Fourth National Census is a very difficult one, statistics departments at all levels must pay great attention to organizing it carefully, and complete all stages of census data processing in a high-quality and timely fashion, while striving to do a good job of routine data processing.

4. Our departmental hardware priority must be focused on the purchase, installation, development, and application of small- and medium-sized computers at the provincial level. We must improve our management of local and municipal computer centers, perfect management regulations, resolve staffing problems, and do a good job of personnel training. We must improve our long-range

data transmission system and its technological confidentiality. And we must further improve our planning for Eighth Five-Year Plan systems.

#### **V. We Must Strive To Improve Our Statistics Legal System**

1. We must conduct thorough propaganda activities to disseminate statistics laws, and better examine our statistics laws and regulations. We must conscientiously implement the national 25-year law-dissemination plan, launch a widespread propaganda campaign to disseminate statistical knowledge, and enhance the understanding of our statistics legal system throughout society. We must focus on improving the quality of our statistical data, by coordinating all statistical collection tasks, and emphasizing examination of statistics work implementation. We must make a breakthrough in investigating and handling major and key cases, by promoting overall statistics enforcement investigations, and handling them in an institutional, orderly, and regular way. We must publicize the implementation of our administrative procedural law, and do a good job of reconsidering cases.

2. We must continue to improve our statistics legislation, by further perfecting our statistics laws and regulations. Provinces, autonomous regions, and cities that have not completed their local statistics legislation, must use all means to coordinate their work with the concerned parties, and complete their local statistics legislation as quickly as possible. Emphasis must be placed on drawing up amendments to the "Statistics Law," and efforts must be made to include them in the 1991 legislative plans of the NPC Standing Committee.

3. We must further perfect our statistics legal system bodies by replenishing their legal investigators. Provinces and autonomous regions that have not yet established statistics law investigative organs, must finish setting up such organs as quickly as possible. Localities (cities) and counties must emphasize deployment of full- or part-time legal investigators and the necessary investigative tools. Moreover, based on the principle of graded training, we must adopt various forms of rotational training in stages for local (municipal) and county statistics legal investigators, and strive to retrain one-half of them each year.

#### **VI. We Must Enhance Our Ideological and Political Work and Specialized Technical Training, in Order To Further Improve the Quality of Our Statistics Ranks**

1. Building a corps of statistics workers with a high level of political and professional competence, is basic to the further improvement of our statistics work. All regions and departments must take conscientious steps to improve the ideological and political education and professional skills training of the masses of statisticians, in order to achieve a big improvement in the overall competence of our statistics ranks.

2. We must conscientiously organize the study of Marxist philosophy, the theory of scientific socialism, and the party's line, principles, and policies, raise the

political consciousness and understanding of policy-making theory among the masses of statisticians, give them unswerving faith in the socialist road, and raise their awareness that we are building socialism with distinct Chinese characteristics.

3. We must improve our inculcation of ethical statistics-collection values, better guide the masses of statisticians to a conscientious sense of responsibility toward the party, the country, and the people, and continue to conduct thorough statistics work contests and appraisals.

4. We must improve our statistics work education, by training the masses of statisticians on many levels and in many ways. We must strive to focus our professional job training on assistant statistics teachers, while continuing to hold training classes for senior statistics teachers and study classes for provincial and municipal statistics bureau directors. All provinces (autonomous regions, and cities) must draw up training plans to enhance their training of county statistics bureau directors and county-level statistician examiners. We must suitably replenish our ranks of teachers, by conscientiously offering a second round of college-level statistics correspondence courses and TV lectures on statistics knowledge. Moreover, we must conscientiously emphasize statistics college education, by focusing on resolving statistics curriculum and teaching materials problems, and vigorously training statistics teachers.

5. We must do a good job of occupational testing, assessment, examination, and appointment of professionals and technicians, do a good job of assessing achievement of targets by accountants in our statistics departments, and continue to emphasize assessment of statistician qualifications.

6. We must work in close coordination with organizational and personnel departments to conscientiously assess, train, select, and reorganize leading statistics department groups at all levels.

It is requested that all provincial, autonomous regional, municipal, and State Council statistics agencies make detailed plans in line with both the above work agenda and also the actual conditions in their own regions and departments.

## **FOREIGN TRADE, INVESTMENT**

### **Make Pudong Catalyst for Shanghai's Development**

91CED2901 Shanghai CHJING YANJIU [THE STUDY OF FINANCE AND ECONOMICS] in Chinese No 11, 3 Nov 90 pp 3-6

[Article by Cai Xinghuo (5591 2502 3499): "The General Idea Is To Make the Development of Pudong a Catalyst for the Invigoration of Shanghai"]

[Text] As Shanghai is at a significant turning point in our economic development, how to make the development and opening up to the outside world of Pudong a catalyst



for the invigoration of Shanghai's economy in the nineties is arousing a great deal of attention among people throughout Shanghai. In order to help draw up the Eighth Five-Year Plan as well as plans for the next decade, this article is presenting a rough outline for opening up to the outside world, reform, and development of Shanghai in the 1990's.

### **I. Shanghai's Historical Legacy from the 1980's and Strategic Options for the 1990's**

Guided by the spirit of the Third Plenary Session of the 11th CPC Central Committee, Shanghai focused on economic development in the 1980's by implementing the policy of reform and opening up to the outside world, and achieved a certain amount of success in formulating and applying an economic development strategy and overall urban planning. But even though we achieved the goal of doubling our GNP and GVIO [Gross Value of Industrial Output], made a breakthrough in our export trade growth, reinvigorated our tertiary industries, and made a definite improvement in our municipal infrastructure, our economic superiority has waned and our economic standing is declining daily, despite our economic growth and increased might. In the past decade, Shanghai lagged behind coastal provinces, such as Guangdong, Fujian, Zhejiang, Jiangsu, and Shandong, in helping to develop the national economy. Several of the key quantitative indicators of our national standing clearly fell. For instance, from 1978 to 1988, our GNP fell from 7.6 percent to 4.7 percent of China's GNP, our national income fell from 8.2 percent to 4.9 percent of China's national income, our GVIO fell from 13.0 percent to 6.0 percent of the China's GVIO, our export turnover (from ports) fell from 29.7 percent to 9.7 percent of China's export turnover, and our local revenue fell from 14.9 percent to 5.9 percent of China's revenue. Our enterprises aged severely, and our undeveloped infrastructure in areas such as housing, transportation, and communications, were even less able to bear the burdens put upon it. Certain insightful people both in China and abroad are worried that Shanghai is in danger of declining further, and there is talk of a so-called "southward shift of the economic center" of China.

While there were many factors that limited Shanghai's economic development in the 1980's, the two basic ones were, one, too heavy financial burdens and, two, overly sluggish reform and opening up to the outside world, which created the following glaring contradictions: 1) In the past decade, Shanghai's heavy financial burdens and slow reform and opening up to the outside world intermingled to limit our development of tertiary industries mostly in areas such as trade, banking, and transportation, while our extensive industries expanded steadily. Shanghai was unable to bring into full play our inherent economic, geographic, and resulting territorial advantages, while our disadvantages of lack of space and temporary shortage of resources were unavoidable. Consequently, our economic development was imbalanced and our "bottleneck" limitations became increasingly critical. 2) Even though Shanghai was in a transitional

phase from labor-intensive to investment and technology-intensive industry, our too heavy financial burdens, inability to accumulate, lack of a policy mechanism to attract foreign investment, attempt to handle too many things at the same time, and inability to upgrade and adjust, caused our investment costs to rise and our marginal efficiency to fall, which exacerbated our foreign disadvantages and minimized our domestic advantages.

As we missed so many good opportunities in the 1980's, the 1990's are going to be even more crucial and rigorous for Shanghai, because not only is our supply shortage limitation not going to be eased, but we are facing the obstacle of even more severe administrative carving up of our markets, and sharper port competition in our foreign trade export market. In particular, the development by leaps and bounds of coastal provinces and cities, through importing foreign technology and investment during the Seventh Five-Year Plan, is likely to put even greater pressure on Shanghai's light textile industry. Shanghai's international disadvantages will increase in the 1990's, with factors, such as the West's "economic sanctions," the more open trend of group competition, and the sudden rise of ASEAN and various surrounding countries, all presenting us new challenges. As history is not likely to present us more opportunities and leeway, we will have to vigorously develop and upgrade faster, in order to gain an invincible position in both foreign and domestic competition and thus, realize our set strategic objectives.

The two key conditions that must be met in order to develop Shanghai's economy faster in the 1990's are more accumulation and better circulation. As long as it remains impossible to reduce our financial burden, the only stand that we can take is to deepen reform and open up more to the outside world. Deepening reform and opening up more to the outside world will improve conditions, enable us to attract much foreign investment and various essentials, tap and bring into play Shanghai's potential advantages, help to focus efforts on upgrading, adjusting, and building, and improve Shanghai's economic circulation and development. Thus, central government support of Shanghai is a necessary catalyst for the development and opening up to the outside world of Pudong, opening up more to the outside world will speed up deepening of reform, and deepening of reform will promote development. Priority must be given to the development of tertiary industries focused mostly on trade and banking, in order to make our industry more intensive and externally oriented. Efforts must be made to basically turn Shanghai into a key city, where industry is open, multipurpose, and rationally structured, by the end of the 20th century.

### **II. Opening Up All of Shanghai to the Outside World Should Be the Base, and the Development of Pudong Should Be the Forward Position, for Forming a Greater Shanghai Open Ring That Is Centered on Pudong's Trade Manufacturing Zone**

As Pudong (East Shanghai) is going to be in an initial development stage in the 1990's, as Shanghai's economic development is going to continue to rely mainly on Puxi

(West Shanghai) and, even when the new Pudong Zone is completed, as the east and west sides of the Pujiang River are going to remain an integral whole, reform and opening up to the outside world should be used as the catalyst for the development of all of Shanghai, and not just for the Pudong EDZ. If Pudong were developed with a greater degree of reform and opening up to the outside world, while all of the rest of Shanghai continued to reform and open up to the outside world more slowly, the policy contrast would be too great. On one hand, such a situation would be hard to control and, on the other, Pudong would lure away west Shanghai's essentials and speed up its decline, which would make the overall loss outweigh the gain. Thus, increased reform and opening up to the outside world should be practiced throughout Shanghai, in order to form a greater three-tiered, open ring that is centered on Pudong's export manufacturing and banking and trade zones.

The first tier would be the central zone for reform and opening up to the outside world. That is, the two small zones of Waigaoqiao and Lujiazui would be set aside in Pudong, to be turned into an export manufacturing zone and a banking and trade development zone, respectively. Waigaoqiao would begin by attracting export manufacturing industries, and then be gradually developed into an industrial base for exports that enjoys a free port policy. Lujiazui would begin by attracting foreign investment banks and tertiary industries in which foreign nationals are involved, and then be gradually developed into an offshore banking center and foreign trade base. More preferential policies should be practiced in these two small zones than in the other SEZ's, their economic operations should be fully in line with international market operations, and they should evolve into Shanghai's central zone for opening up to the outside world.

The second tier would be the forward position for reform and opening up to the outside world. That is, the 350 sq km that are designated as Pudong, would be turned into a multipurpose development zone in which certain EDZ policies are practiced. Some EDZ policies would be used in this zone to attract foreign investment, interrelated accessory reforms would be carried out, economic operations would be focused mostly on market regulation; industry, tertiary industries, and agriculture would be opened up to the outside world and developed, and multipurpose economic development would be practiced, so that the new Pudong Zone would become the forward position for opening up to the outside world, and the catalyst for Shanghai's economic takeoff.

The third tier would be an expanded open zone of the 6,340 sq km throughout Shanghai, in which open policies and interrelated economic policies similar to those in Guangdong and Fujian would be practiced. The central government should regard Shanghai as a comprehensive testing zone for the deepening of reform, by letting us take the first reform steps in China in areas, such as planning, foreign trade, pricing, banking, and wages, in order to greatly invigorate our economy. In this way, Shanghai could become a buffer against the shock of the greater

reform and opening up to the outside world that would be taking place in Pudong, while complementing and backing up the Pudong EDZ. With their greater degree of reform and opening up to the outside world, the over 20 sq km of the Huangpu District centered on Waitan could, together with Lujiazui, be built into a central banking and trade zone. This could then spread out in concentric circles all the way to all suburban counties. Certain industrial zones could be built on the basis of existing distribution characteristics and relative advantages. In order to adapt to economic centralization and decentralization needs, the organizational system of qualified counties should be changed to cities.

This three-tiered structure of reform and opening up to the outside world could have the foreign and domestic absorption effect of a hamburger bun. That is, centered on the policy of reform and opening up to the outside world, it would absorb foreign investment and fund sources on one side, and domestic ones on the other, radiating them outward level by level. This would enable Shanghai to basically come into its own as an economic center by the end of the 20th century.

### **III. Pudong Could Become the Forward Position for Development of an Externally Oriented Economy, and West Shanghai Could Become a Prop for Pudong's Development and Opening Up to the Outside World**

Although the 6,340 sq km throughout Shanghai are an integral whole, in which the 350-sq-km Pudong EDZ is a window to the outside world that is different but more important than the Shenzhen SEZ, the window of primary importance is Shanghai's overall foreign economic relations. Shanghai's upgrading and vigorous development should take full advantage of the more favorable microclimate offered by Pudong's policy differences, and Pudong's development and opening up to the outside world should fully rely on West Shanghai's existing bases and qualifications, so that they can bring out the best in each other. In particular, all of Shanghai must take advantage of Pudong's greater openness in order to raise funds and increase exports, and west Shanghai's stronger production capability and S&T foundation must be utilized in Pudong's development stage, in the following ways: 1) The Pudong Development Bank should be established, and the Foreign Investment Bank should be set up and utilized in conjunction with other financial institutions or Sino-foreign joint ventures, to raise funds not only for the development of Pudong, but also for the upgrading of West Shanghai; 2) central government support funds for Pudong should be used to build infrastructures linking Pudong with west Shanghai; 3) the preferential policies granted to Pudong by the central government in the areas of foreign trade exports and foreign exchange retention, should be used in Pudong to set up foreign trade agencies that operate in and beyond Shanghai and within and outside China, and to develop export trade, with Shanghai's export production "leadership" being in Pudong, but most of its production, manufacturing and accessories being in west

Shanghai; 4) west Shanghai's existing research capabilities and Pudong's qualifications in collecting sensitive international information should be utilized to make Pudong and west Shanghai's scientific research, development, production, and marketing a coordinated process, with research and production in west Shanghai, and development and marketing in Pudong. This would be a new way to enable Shanghai to develop a basically externally oriented economy for the 1990's.

#### **IV. Priority Should Be Given To Developing Tertiary Industries Focused on Trade and Banking**

Shanghai has both potential advantages and immediate qualifications for developing tertiary industries focused on trade and banking. Our potential advantages are our economic and geographical advantages and their resulting real estate economic advantages, as well as our historical experience and foundation. Our immediate qualifications are the central government backing of our reform and opening up to the outside world, which can be translated into policy support for development of tertiary industries. Thus, we advocate vigorous development in the 1990's of tertiary industries that are focused on trade and banking and include transportation and communications, real estate, tourism, and advisory services.

1. *Shanghai should begin to be turned into a trade center in the nineties.* First, we should take advantage of the reform and open policies granted to Pudong to allow the Foreign Investment Bank to run the three kinds of foreign trade enterprises and conduct export credit business, increase Shanghai's decisionmaking power over foreign trade and expand our foreign exchange retention and tariff preferences both within and beyond the Pudong EDZ, improve accessory services in areas, such as warehousing, information, laws, and advice, hold international trade fairs to entice inland and concerned central ministry and directly subordinate companies into setting up foreign trade agencies in Pudong, while allowing foreign businessmen to take some part in foreign trade operations, and vigorously expand foreign and entrepot trade. Second, we should strengthen and improve our domestic trade in the following ways: 1) We should expand our wholesale business by beginning to devolve authority to lower administrative levels, allowing commercial enterprises to develop wholesale business as long as it does not violate national law or policy; thus, permitting collectives and individuals to take a limited part in the wholesale business, forming a wholesale system in which large- and medium-sized state-owned enterprises are the backbone, and small, collective, and individual enterprises play a supporting role, engaging in commercial activities throughout China, setting up joint entities that cross provincial and municipal lines. 2) We should take advantage of all types of existing trade centers, strengthen and improve them and, in particular, ask the central government to set up a futures trading pilot project in Shanghai for agricultural products and some capital goods. 3) We should enhance our purchasing capabilities by coordinating them with structural adjustments and wholesale land rental policies

in the old city proper, appealing to Shanghai as well as other provinces and cities to set up commercial and imported goods streets with distinctive features, setting up a commercial zone along Zhongshan Loop Road, and setting up commercial strips in suburban counties (cities) to form an all-Shanghai network. 4) In order to help develop an externally oriented economy, we should organize a comprehensive trade and commerce agency to engage in foreign and domestic trade.

2. *Financial institutions should be established, and money markets should be developed, to turn Shanghai into an embryonic banking center in the 90s.* We should continue to urge the central government to let Shanghai set up local banks, the Pudong Development Bank, a housing development bank, and various types of financial corporations. We recommend the establishment of a more complete banking system through setting up a regional bank (or using the Central Government's existing banks in Shanghai), as well as the Foreign Investment Bank and Overseas Chinese Foreign Investment Financial Institution to which the central government has already agreed. We should develop a short-term money market, a stock market, and a foreign exchange regulation market, and allow people from other parts of China to take part, and foreign businessmen to play some part in our financial transactions and operations. The two crucial issues here that need quick reform and central government backing are the needs to issue more of all types of stocks and bonds and set more flexible floating interest rates.

3. *Housing reform should be speeded up, differential land rent and wholesale land rental should be practiced, and the real estate industry should be developed.* Along with increased opening up to the outside world, Shanghai's real estate economic advantages will become increasingly prominent and, if fully explored, the real estate industry will become a money tree for Shanghai's fund accumulation in the 1990's. The following crucial tasks must be accomplished in this area: 1) we must speed up our housing reform, put a fund accumulation system into effect, and commercialize housing faster; 2) we must speed up our structural adjustment and industrial replacement, and practice differential land rent; 3) we should practice wholesale land rental throughout Shanghai, and let foreign businessmen and all central ministries, provinces, and cities take part in our real estate operations. Wholesale land rental should be combined with early stage development in Pudong, and with urban renewal in the old city proper. As the tasks of developing Pudong and upgrading west Shanghai are going to be the heaviest and money is going to be very tight during the Eighth Five-Year Plan, even though it will certainly be difficult for the central government to help us with more money, it will still be able to grant Shanghai rent sharing preferences.

4. *The backing of the central government should be won over to raise funds from all areas for the development of transportation and communications facilities that are suited to the needs of Shanghai as a key externally oriented city.* We must



first win over the backing of all central ministries for the use of some foreign investment to expand our harbors, railways, air harbors, expressways, key transportation lines, and postal and telecommunications facilities, and to improve our capability as a hub of communications. We must use some of the money that the central government has already assigned to us to speed up the building of communications lines across the Pujiang River. We must combine increased fundraising by local governments and nongovernmental fundraising to upgrade our urban and suburban communications. Suburban nongovernmental fundraising must adhere to the principle of whoever profits must pay or whoever pays should profit, and employ the method of the fundraisers doing the building and the users being charged. Upgrading of urban communications facilities can be combined with real estate leasing and use rights, i.e., by using the land along roads and around subway stations and the rental income from house property for upgrading.

**V. Shanghai's Advantages Should Be Brought Into Full Play, and Foreign Investment Should Be Used To Speed Up Our Adjustment and Upgrading, To Make Our Industry More Intensive and Externally Oriented**

Shanghai has a solid industrial base with advantages but also great shortcomings. Its main advantages are its completeness, tripartite balance of raw materials, packing, and consumer goods industries, and intensive interrelations, which form a complete industrial chain, and its good technological base which, in addition to having enormous numbers of scientists and technicians, also has high-quality staff members and workers and, in particular, domestic advantages in the packing and raw materials industries. Its major shortcomings are that while it is large and complete, its leading industries are not outstanding, and its enterprises are aging, have an irrational organizational structure, practice too extensive production operations, and are blocked from externally oriented development. Thus, our adjustment and upgrading tasks are as follows:

1. To give priority to the upgrading and development of industries and products that were imported in the 1980's, and to complete several industrial complexes focused on export goods by the late 1990's, in the area of industries that produce durable consumer goods, such as household appliances, and the clothing industry, and products, such as cars, and some electronic components;
2. To utilize Shanghai's good technological qualifications to vigorously upgrade and expand our packing industry, which has domestic market advantages, and to form several import-substitute industrial complexes, by merging the electronics industry into an organic whole with products, such as large equipment and electronic instruments;
3. Focused on export-oriented and import-substitute industries and products, to take full advantage of our existing raw materials industrial base and end-product production capacity to develop intermediate products, such as components and spare parts, form a complete

system of export industries and import-substitute industries, and turn Shanghai into a dominant industrial complex

4. To eliminate and restrict industries and products that have poor export prospects, little added value, consume too much energy and materials, and cause serious pollution, and to make ordinary industries and products more externally-oriented;

5. To adjust our industrial and enterprise organizational structures, by converting to specialized coordination and economy of scale production, i.e., organizing enterprise groups and corporations to shift from departmental to industrial management, practicing specialized and mass production, and shifting from large and complete or small but complete to specialized coordination.

In order to upgrade and adjust our industrial structure, we must solve glaring problems in the areas of fundraising and lack of system coordination. Our upgrading and adjustment fund sources are enterprise accumulation, savings capital adjustments, and foreign investment. Enterprise accumulation capacity depends on improved efficiency, increased income, and decreased expenditure on one hand, and on preferential policies, reduced burdens, higher depreciation, and tougher restraints on key industries and enterprises on the other. Savings adjustments come through structural adjustment and bidding, merging, and upgrading. As to foreign investment and domestic funds, in addition to attracting direct investment by foreign businessmen, large- and medium-sized key enterprises, enterprise groups, and enterprise corporations can also sell stocks and bonds. As for our lack of system coordination, we must solve the following two key problems: 1) the relations between centrally owned enterprises and localities must be premised on ensuring a supply of raw materials to Shanghai and the proper income for centrally owned enterprises, and on studying profit-sharing and joint-management methods, such as investment in shares, investment of raw materials by centrally owned enterprises in joint operations, and manufacturing of imported materials; 2) some carving up of local industry affects structural adjustment. Adjustments of the industrial structure must be coordinated to eliminate departmental boundaries, and reorganization of key elements must be used as the catalyst for adjusting relations. From now on, enterprise groups and enterprise corporations can be regarded as pillars of the local government management function and subordinate to the government sector, while ungrouped companies and peripheral enterprises should be under industrial management.

**Analysis of Fujian's Foreign Trade Reform**

91CE0207A Fuzhou FUJIAN LUNTAN [FUJIAN FORUM] JINGJI SHEHUI BAN [ECONOMICS AND SOCIAL SCIENCES EDITION] in Chinese No 11, 10 Nov 90 pp 27-30

[Article by Zhang Fengqing (1728 7685 3237): "An Exploration of Fujian's Foreign Trade System Reform"]

[Text] Since the reform and opening up, Fujian Province's foreign trade has had significant development. Between 1979 and 1989, the province's total foreign trade volume reached \$10.9 billion, of which, total export value was over \$7.1 billion. Compared to 1978 which was before the reform and opening up, export trade in 1989 increased 7.74 fold and the average annual increase rate reached 21.76 percent. How do we establish a foreign trade system that can better accelerate the development of foreign trade? This article will explore this issue.

## I.

Since the Third Plenary Session of the 11th CPC Central Committee, Fujian Province's foreign trade system reform has made significant progress. It is manifested mainly as follows:

- Reforming the foreign trade administrative and management system. Except for Xiamen's specialized foreign trade companies, all prefectural and municipal foreign trade subsidiary companies and all county (city) foreign trade companies have severed financial ties with the provincial foreign trade headquarters and various specialized foreign trade companies of the province. Instead, they have established financial ties to local treasuries, thus effectively arousing local and enterprises' enthusiasm for expanding exports.
- Reforming the foreign trade financial system. Fujian has adopted the method of fixing the bases of foreign exchange and export cost in foreign trade and export operations. Foreign exchange earnings within the base are delivered to the state, and a part or all of the above-base foreign exchange earnings are retained by the province. Export cost within the base is set by the state, and profits and losses are settled by the state. Export cost beyond the base is settled by the province and the province also assumes sole responsibility for resulting profits and losses.
- Implementing the foreign trade contract management responsibility system. Fujian began to implement the export trade management responsibility system in 1987. Contract tasks include the base of foreign exchange earnings from exports, the base amount of foreign exchange to be delivered to the central and provincial governments, and export subsidies. This practice has put foreign trade on the initial track of assuming sole responsibility for profits and losses.
- Breaking up the highly centralized management of foreign trade and establishing a multi-channel and multi-level foreign trade operation network. Through delegating foreign trade management power to lower levels in the past decade, Fujian has broken up the monopoly of specialized foreign trade companies in foreign trade and established an initial form of foreign trade operation system which is based on specialized foreign trade companies and includes multifarious industrial trading companies, production enterprises which have direct foreign contacts, enterprises which

are integrated with other domestic units, and enterprises with three sources of capital. This has effectively aroused the enthusiasm of all fields for expanding exports and earning foreign exchange.

- Improving the foreign exchange control system in accordance with the progress of the foreign trade system reform. Fujian has established two provincial-level foreign exchange regulating centers—Xiamen and Fuzhou—and the Quanzhou foreign exchange regulating center, thus establishing an initial form of unified foreign exchange market across the province and facilitating the circulation of foreign trade capital.

## II

The 10 years of reform has accelerated the development of foreign trade, but many flaws in the foreign trade system have not been eradicated and foreign trade development (especially export trade) is still restricted as a result.

- The current import and export permit and quota control system is detrimental to both the enterprise and the government and affects the efficiency of foreign trade management. As far as the government is concerned, the permit quota is an important measure for strengthening overall foreign trade control. However, since its use is free, such permit quotas cannot restrict enterprises' management behavior, thus weakening their effect on macroeconomic regulation and control. Moreover, due to the lack of openness in management, some foreign trade companies can obtain through various channels permits and quotas for commodities which they have no authorization to export. This practice has worsened the cut-throat competition within the same industries of foreign trade, causing "profits to flow to the outside." As a matter of fact, disguised buying and selling of permits and quotas have occurred among enterprises. As far as enterprises are concerned, the current permit and quota control system of "one approval and one permit" has caused many more troubles for enterprises. And since it takes a fairly long time (over a month) to examine and approve a permit and quota, it prevents enterprises from seizing the opportunity to make a deal in export.
- The overall regulation, control, and coordination of foreign trade are ineffective, causing confusion in the order of foreign trade. As of today, Fujian Province has failed to establish a macroeconomic management and coordinating system, affecting the sound development of foreign trade. On the one hand, along with the delegation of foreign trade management power to lower levels, foreign trade management channels have been expanding continuously, but antagonism exists among different foreign trade management enterprises and the group concept of foreign trade management is weak. As a result, they frequently scramble for the sources of goods and slash prices to compete with one another on the market. On the other hand, local governments more often than not proceed from local

interests and enforce the blockade of the sources of export goods. As a result, "each does things in his own way." Localities cannot coordinate and agree with one another and unite their positions when dealing with foreign countries, thus substantially reducing their international competitive capacity and making it difficult for them to play up their advantages.

—The foreign trade financial system fails to change the situation in which enterprises engaged in export production benefit more from domestic sales than export sales. Due to the limited amount of foreign exchange retained from export goods, enterprises cannot get reasonable compensation. Because of this, it is very difficult to arouse enterprises' enthusiasm for export production.

—The relation between industry and trade has not been fully smoothed out. In recent years, through various forms of industrial and trade integration, Fujian Province has somewhat alleviated the contradiction between industry and trade. However, the relation between industry and trade has not been smoothed out fundamentally. First of all, some export production enterprises have been authorized to deal directly with foreign countries in regard to their own products. But since the trade mark right (de facto the management right) of their traditional export products is still controlled by the foreign trade management department, they can only develop and export new brands of commodities. Under today's international trade environment, creating a new brand is extremely difficult and enterprises which handle their own exports must take the risk of losses. This has resulted in frictions between industry and trade on the issue of the trade-mark right. Second, it has been very difficult to develop the export agent system between industry and trade. The agent system Fujian implemented mainly is the foreign trade department representing local government organs in above-plan exports. The development has been very slow regarding the foreign trade department representing plants in exporting their products. Third, production enterprises' right to choose the export and management method of their products is restricted. Since only a small percentage of production enterprises have the right to handle their own exports, most production enterprises still rely on foreign trade management enterprises for the export of their products. As far as these enterprises are concerned, their right to choose the export and management method of their products is extremely limited.

—The implementation of the foreign trade contract system has created new problems for the development of foreign trade. As a practical choice, the foreign trade contract system has failed, however, to eliminate once and for all various defects of the foreign trade system. Moreover, it has created many new problems. One is causing different districts to impose blockades on one another, thus affecting the macroeconomic results of foreign trade management. Second is leading

to the short-term behavior of foreign trade management enterprises. After awarding a contract, whether or not the foreign trade management enterprise can fulfill its contract targets determines its immediate interests. This causes foreign trade enterprises to vie with one another in the panic buying of export goods and lack proper enthusiasm for the development of export commodity base. Third is that the contract method itself is not scientific. The fact that contract targets are set to remain unchanged for three years, in particular, makes it very difficult for enterprises to adapt.

—Certain flaws in the current foreign exchange control system have become the obstacle that prevents foreign trade management to assume sole responsibility for profits and losses. Government organs gather foreign exchange in the form of export plans and financial subsidies, causing the government's financial burdens to get heavier and heavier. Moreover, in the centralized use of foreign exchange by the government, the line between the government and enterprise uses of foreign exchange is obscure. This has led to the distorted distribution of foreign exchange resources and dampened the enthusiasm of foreign exchange-earning enterprises. At the same time, it has also stimulated the need for the centralized control of foreign exchange by the government. Because of this, export enterprises get only a very small share of foreign exchange they earned from foreign trade, and it is very difficult for the enterprises to nurture their ability to assume sole responsibility for their own profits and losses by expanding exports and foreign exchange earnings. In addition, after the establishment of foreign exchange market, the government's ability to balance the supply and demand of foreign exchange on the market is weak, which causes enterprises' foreign exchange holdings to expand continuously, thus affecting the turnover of working funds.

### III.

How can we deepen the reform of Fujian's foreign trade system? I think that the basic orientation of Fujian's foreign trade system reform is to break away from the current practice of foreign trade contract system, regard enlivening export enterprises and increasing the staying power of export development as the center, and establish, under the prerequisite of increasing the macroeconomic control of foreign trade, a new system under which foreign trade enterprises can "assume sole responsibility for profits and losses, engage in open operations, combine industry with trade, implement the agent system, adopt a united position when dealing with foreign countries," and create conditions for the development of an export-oriented economy in Fujian. Concrete reform ideas include:

—Strengthening the orientation of industrial policy of foreign trade production. Fujian should step up the study of Fujian's export commodity mix and its development trend and formulate the development strategy of export products. At the same time, Fujian should



study and formulate as soon as possible an export-oriented industrial development strategy for the province and strengthen the industrial orientation of export trade. Especially when bringing in Taiwan and foreign capital, Fujian should give full play to the role of orientation of industrial policy so as to establish as soon as possible an industrial system whose development is export oriented.

—Improving the management of permit quotas. The import and export permit quota is issued to Fujian Province by the state according to the breakdown of the target of state plan. Except for the permit quotas that are related to the command plan, the permit quotas of all export commodities should be issued in principle according to the method of public bidding and subjected gradually to commercialized management. In other words, all those who are not enforcing the state command plan but are using the quota of permit to export commodities should deliver a certain percentage (to be determined after calculation) of their foreign exchange income to the state. All those who use import permits to import commodities should also deliver a certain percentage (to be determined after calculation) of their profits to the state. To prevent missing an opportunity to strike an export deal, permit quotas under commercialized management should be allowed to be transferred rationally under the supervision of the departments concerned.

—Exercising the legalized management of foreign trade. Standardization and legalization of foreign trade management is the basic orientation of China's foreign trade system reform. Fujian's foreign trade must gradually carry out legalized management to ensure its unified position in foreign trade and export.

—Establishing an export chamber of commerce to strengthen the horizontal coordination of all foreign trade enterprises. After the separation of government from enterprise in foreign trade operation and management, the export chamber of commerce will become the link between the government and enterprise and an effective means to coordinate the activities of foreign trade production and management enterprises. In addition to organizing and joining national-level export chambers of commerce, Fujian should proceed from provincial conditions and vigorously organize, in accordance with the principle of elaborate division of labor, chambers of commerce for the export of major export commodities. Such export chambers of commerce are civilian in nature and export production and management enterprises should join on a voluntary basis. For now domestic production and management enterprises are main targets. When conditions are ripe, Taiwan compatriots and foreign-funded enterprises may also be absorbed appropriately. Through the organization and establishment of export chambers of commerce, Fujian should adopt the protective prices of exports to ensure the normal competition of export business. At the same time, Fujian should also do a good job in the

industrial development plan of export commodities, circulate market information, and use the advantage of group strength to open up the international market.

—Reforming the planning and control system of foreign trade. Since Fujian is a province of a fairly high degree of openness, its foreign trade planning and control should have a certain degree of flexibility and scientific nature. In accordance with this demand, Fujian must establish a set of foreign trade planning and control systems based on command plans. For a few export commodities which must be subjected to the control of command plans, proper policy measures should be adopted to coordinate the enforcement, namely, guarantees and preferential treatments should be provided in regard to raw materials, credit funds, commodity pricing, the issuance of permit quotas, and the sharing of foreign exchange earnings. At the same time, Fujian should also standardize in the form of contract the rights and obligations of government and enterprise, reduce the excessive administrative interference of government organs, and guarantee the lawful interests of industrial and trade enterprises which enforce the command plans of foreign trade. As for the export of commodities under the control of guidance plans, enterprises in principle make their own decisions and assume sole responsibility for their own profits and losses.

—Developing in a selective and step-by-step manner foreign trade enterprises which integrate export production with management to promote the integration of industry with trade. Fujian should vigorously support large export production enterprises in developing direct foreign contacts, gradually change the current foreign trade operation mechanism under which pure management foreign trade enterprises dominate, and establish a new operation mechanism under which pure management and production-management foreign trade enterprises coexist.

In order to achieve the economies of scale, Fujian should also organize and establish export enterprise groups to carry out the operations of scale.

—Developing direct foreign investment and perfecting overseas marketing networks. Fujian should combine foreign investment with its efforts to expand the export market and put the focus of investment in the Soviet Union, East European countries, FEC member nations, and North America so as to guarantee a share of market for Fujian's export goods in the "US-Canadian free trade zone" and the upcoming "unified European market." At the same time, Fujian should also study and adopt as soon as possible necessary measures to develop direct investment in Taiwan and strengthen, through investing and building factories in Taiwan, economic and trade cooperation between Fujian and Taiwan, and bring further development in its economic and trade relationship with Taiwan. To develop foreign investment, Fujian should concentrate on work in two areas: one is to formulate a

foreign investment plan as soon as possible; the other is to establish a foreign investment fund.

—Strengthening the centralized management of import trade. Import trade management rights must be relatively centralized to effectively suppress imports. Import management rights should be handed over mainly to export enterprise groups or determined by the chamber of commerce for export industries. General foreign trade enterprises enjoy only the right to import what they need (such as office equipment and materials and articles needed for the development of export commodity base). Through the centralized management of import trade, Fujian should strengthen the effective control of foreign imports.

—Implementing a new foreign exchange-sharing system. The reform of the foreign exchange-sharing system should be carried out in accordance with the principle of helping to reduce the state's economic burden, increase enterprise income, arouse enterprises' enthusiasm for expanding export production and management, and encourage enterprises to assume sole responsibility for their profits and losses. The basic content of the new foreign exchange-sharing system is that enterprises should hand over to the state without compensation a certain percentage (such as 5 percent) of all foreign exchange they earned from exports and keep the rest for their own use (the percentage may vary depending on the industries and products). According to foreign exchange needs, government organs may buy foreign exchange from enterprises and enterprises holding foreign exchange should sell their foreign exchange to the government unconditionally. Under the condition that multiple rates of exchange exist in reality, the government should pay the market price for the foreign exchange it purchases. After the level of the exchange rate becomes rational, it may pay the current rate. At the same time, foreign exports should no longer enjoy loss subsidy, and enterprises should manage their business on their own and assume sole responsibility for their profits and losses. As for the exports of a few commodities under the state's command plan, the sharing of foreign exchange may consult the current method, but it should be modified according to the change of objective conditions from time to time.

—Establishing foreign trade development fund and export risk fund. The foreign trade development fund is used mainly to help enterprises expand the foreign market, develop export commodities, support the production of export commodities, and encourage and expand the export of new products so as to increase Fujian's stamina in the development of exports. The fund comes first, from the part of revenue originally used to subsidize the losses of foreign exports, and second, from the economic income derived as a result of the commercialization of permit quotas. The purpose of establishing an export risk fund is to help export enterprises solve the problems caused by a temporary shortage of working funds and to make up

the losses of export enterprises caused by changes in the domestic purchasing prices of export goods. Enterprises should contribute a certain percentage of their export earnings to the export risk fund.

—Gradually perfecting the foreign exchange market. As the volume of foreign exchange transactions increases, Fujian needs to establish a provincial foreign exchange regulating network to gradually form a provincial foreign exchange market.

—Reforming foreign exchange management and making rational arrangements to meet the foreign exchange needs of the government and enterprise. The government uses foreign exchange mainly for administrative and official purposes and to pay for imported equipment for educational, scientific, cultural, health, and social welfare departments. Foreign exchange-earning enterprises may use their share of foreign exchange earnings, but they have to conform to the state's foreign exchange control policy in the direction of their uses and be subjected to the supervision of foreign trade departments. Enterprises which do not earn foreign exchange and construction projects in principle have to buy the foreign exchange they need to use.

#### Increased Building Material Exports During Eighth 5-Year Plan

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0818 GMT 26 Feb 91

[Text] Beijing, February 26 (XINHUA)—China plans to economize on energy consumption and to increase exports of building materials in the coming five years.

Today's Overseas Edition of PEOPLE'S DAILY paper quotes Wang Yanmou, director of the State Administration of Building Materials Industry, as saying that the administration plans to generate an annual output value of 75 billion yuan in 1995, thus requiring an average annual increase rate of 6.7 percent in this field from now on.

The administration will export building materials valued at between 2 and 2.5 billion U.S. dollars per year during the period. Exports of this amount would mark an increase of between 67 percent and 108 percent over 1990.

In addition, the director said that its energy costs will drop from the present 21 tons of standard coal per 10,000-yuan worth of goods to 19 tons.

The director said that while increasing production to meet the needs of domestic markets, the administration will expand exports by improving product structure, building more export-oriented production bases, and upgrading the technology of existing enterprises during the next five years.

Statistics reveal that China's exports of 14 major building materials to the Asian and Pacific regions during the 1988-90 period increased by 35 percent, and accounted for 66.4 percent of the country's total export

volume. PEOPLE'S DAILY reported that over the past two years increasing numbers of foreign businessmen have come to China to invest in Sino-foreign joint ventures and in solely foreign funded ventures.

## POPULATION

### Impact of Population Growth on Natural Resources

91CE02854 Beijing JINGJI CANKAO BAO in Chinese  
1, 8 Jun 91

[Article in two installments by Qin Pinduan (4440 07-504551)]

[1 Jun p 6]

[Text] Environment has been a major factor in the existence and development of mankind. Especially now, given the sharp increases in population and environmental deterioration, the study of man's effect on the environment is definitely important both theoretically and practically. This article will consider the quantitative impact of China's population on the natural environment with respect to the land, cultivated areas, forests, grasslands, and freshwater areas.

### Impact of Population on the Land

Land is the continental territory of a country or region. (It does not include sea area.) It is the basic region where man exists and develops. It is the matrix of natural resources, including surface raw materials (forests, animals, rivers, lakes, etc.) and underground raw materials (minerals, freshwater, etc.). Land is divided into territory that has been developed and utilized and territory that has yet to be developed or utilized (for example, deserts and wastelands).

To compare the population of China with the populations of other countries of the world with respect to their quantitative impact on the land, we have assigned a standard impact value of one to the world's per capita land area. Dividing this by the per capita land area of various countries, we arrive at quotients which represent the impact of population on the land.

Statistics show that in 1987 the impact of population on the land in China and in some of the other countries of the world, going from lesser to greater, can be ranked in the following order: Australia, 0.06; Canada, 0.07; the Soviet Union, 0.34; Brazil, 0.45; the United States, 0.70; Mexico, 1.11; Egypt, 1.38; Indonesia, 2.42; France, 2.73; Nigeria, 2.99; China, 3.02; Poland, 3.25; Pakistan, 3.47; Italy, 5.14; Great Britain, 6.28; India, 7.04; Japan, 8.73; and Bangladesh, 19.26. Of the countries mentioned here, the impact on Bangladesh, the country where the pressure was the greatest, is 321 times that of Australia, the country where the pressure was the least. The disparity is huge. China's quotient of 3.02 for the impact of its population on the land shows that: (1) its per capita land area is less than one-third of the world's per capita land area, and (2) its population density is 3.02-fold that of the world's population density.

To analyze the impact of population on the land in China from 1949 to 1989, we have assigned a standard impact value of 1 with respect to population density in 1949. Dividing this by the population densities for every year from 1950 to 1989, we arrive at quotients for the impact of population on the land for each of the years. Calculated in this way, 1949 was 1, 1961 was 1.22, 1970 was 1.52, 1980 was 1.82, and 1989 was 2.05. The impact of 1989 was 1.05-fold that of 1949, an annual increase of 1.81 percent. During the same period, China's population increased from 541.67 million in 1949 to 1.11191 billion in 1989, a 1.05-fold increase and an average annual increase of 1.81 percent. It can be seen from this that the impact of population on the land in China has increased simultaneously with its increase in population. This shows that, for the past 40 years, China's 1.05-fold increase in the impact of population on the land has, in effect, reduced by more than one-half the per capita land area, more than doubled population density, and reduced by more than one-half the area in which the population exists and develops. If we are to moderate the impact of population on the land, population control is a necessity.

### Impact of Population on Cultivated Land

For man, grain is paramount. For grain, land is paramount. At present, people's food mainly consists of grain and vegetables, and since cultivated land is the main factor in producing grain, it is extremely important to the existence and development of the population.

We have assigned a standard impact value of one with respect to the world's per capita cultivated land. Dividing this by the per capita cultivated land of various countries, we arrive at quotients for the impact of population on the cultivated land for these countries.

Statistics show that in 1986 the impact of population on cultivated land in China and some of the other countries of the world was ranked in the following order: Australia, 0.09; Canada, 0.15; the Soviet Union, 0.34; the United States, 0.35; Brazil, 0.59; Poland, 0.71; Mexico, 0.96; Nigeria, 0.97; France, 1.16; India, 1.28; Pakistan, 1.38; Italy, 1.71; Great Britain, 2.22; Indonesia, 2.95; China, 3.05; Bangladesh, 3.15; Egypt, 5.88; and Japan, 7.97. China's 1.37 mu of cultivated land per capita is less than one-third of the world's 4.19 mu of cultivated land per capita and accounts for seven percent of the world's cultivated land while supporting 21.4 percent of the world's population. The impact of population on China's cultivated land is 5.2-fold that of Brazil, 8.7-fold that of the United States, 20.3-fold that of Canada, and 33.9-fold that of Australia. The impact is huge.

In 1949, China had 1.468 billion mu of cultivated land, with 2.7 mu per capita (1 standard impact value). In 1988, China had 1.44 billion mu of cultivated land, with 1.3 mu per capita and a population impact on cultivated land of 2.08. Over the 39 years, the impact increased 1.08-fold, an annual increase of 1.89 percent, while population increased 1.02-fold, an annual increase of 1.82 percent. During this same period, the rate of



increase in the impact of population on cultivated land exceeded the rate of population growth. This was because that, while population had increased 1.02-fold, cultivated land area decreased 1.37 percent (an annual decrease of .04 percent).

[8 Jan p 4]

**[Text] Regional Disparities in the Impact of Population on China's Cultivated Land**

We have assigned a standard impact value of one to China's per capita cultivated land nationwide. Dividing this by the per capita cultivated land of the various regions we arrive at quotients for the impact of population on cultivated land for these regions.

Statistics show that in 1988 the impact of population on cultivated land in the various regions in China was ranked in the following order (the figures in parentheses indicate cultivated land per mu per capita): Heilongjiang, (3.82) 0.34; Inner Mongolia, (3.49) 0.38; Xinjiang, (3.24) 0.40; Ningxia, (2.68) 0.49; Jilin, (2.50) 0.52; Gansu, (2.44) 0.54; Shanxi, (2.02) 0.63; Qinghai, (1.96) 0.67; Hebei, (1.70) 0.77; Shaanxi, (1.70) 0.77; Tibet, (1.57) 0.83; Liaoning, (1.37) 0.96; Henan, (1.29) 1.01; Shandong, (1.28) 1.02; Anhui, (1.22) 1.07; Yunnan, (1.17) 1.12; Jiangsu, (1.06) 1.23; Hainan, (1.03) 1.27; Hubei, (1.01) 1.29; Jiangxi, (0.98) 1.34; Guangxi, (0.94) 1.39; Sichuan, (0.90) 1.46; Guizhou, (0.89) 1.47; Hunan, (0.85) 1.54; Tianjin, (0.77) 1.70; Fujian, (0.65) 2.02; Guangdong, (0.64) 2.05; Zhejiang, (0.62) 2.11; Beijing, (0.58) 2.27; and Shanghai, (0.39) 3.37. The impact on Shanghai, where it was greatest, was 9.9-fold that of Heilongjiang, where it was the least. If we eliminate the three municipalities of Beijing, Tianjin, and Shanghai, the impact on Zhejiang, where it was the greatest of the 27 provinces, was 6.2-fold that of Heilongjiang. The disparity is still huge. Regions with less than 1 mu of cultivated land per capita accounted for 36.7 percent (more than one-third) of the total number of regions.

**Impact of Population on Forests, Grasslands, and Freshwater**

*Impact of population on China's forests.* Taking the world's per capita forested area as a standard impact value of one and dividing it by the per capita forested area of various countries, we arrive at quotients for the impact of population on the forested area in these countries. In 1986, the impact of population on the forested areas of China and other countries was ranked in the following order: Canada, 0.06; Australia, 0.12; Brazil, 0.21; the Soviet Union, 0.24; the United States, 0.75; Indonesia, 1.14; Mexico, 1.48; France, 3.10; Poland, 3.50; Japan, 3.93; Nigeria, 5.67; Italy, 6.91; China, 7.56; India, 10.02; Great Britain, 20.12; Pakistan, 26.34; Bangladesh, 39.26; and Egypt, 1327.83. The impact of population on China's forested area of 7.56 and its 1.6 mu of forested area per capita is less than one-seventh the world's 12.4 mu per capita, one-half of Japan's, one-fifth of Mexico's, one-tenth of the United

States', one-thirty-first of the Soviet Union's, one-thirty-sixth of Brazil's, one-sixty-third of Australia's, and one-one hundred and twenty-sixth of Canada's. Twelve percent of China is forested, 11.2 percent less than the world as a whole. It is obvious that China is a country lacking in forests.

*Impact of population on China's timber reserves.* Taking the world's per capita timber reserves as a standard impact value of one and dividing it by the per capita reserves of various countries, we arrive at quotients for the impact of population on the timber reserves for these countries. Statistics show that in 1986 the impact of population on China's timber reserves was 6.45, and its 9.7 cubic meters of timber per capita was less than one-sixth of the world's 63 cubic meters per capita, and only one-seventh of Italy's, one-ninth of the United States', one-thirty-second of the Soviet Union's, one-forty-third of Brazil's, and one-ninety-second of Canada's. Each year China produces 275 million cubic meters of timber and consumes 294 million cubic meters, thereby creating a deficit of 19 million cubic meters. It is obvious that China is also a country deficient in timber reserves.

*Impact of population on China's grasslands.* Taking the world's per capita grassland area as a standard impact value of one and dividing it by the per capita grassland area of various countries, we arrive at quotients for the impact of population on the grasslands of these countries. Statistics show that in 1986 the impact of population on China's grasslands was 3.06, and its 3 mu of grassland per capita was less than one-third of the world's 9.8 mu per capita and only one-fourth of Mexico's, one-fifth of the United States', one-sixth of the Soviet Union's, and one-thirteenth of Australia's.

*Impact of population on China's freshwater.* Statistics show that in 1985 China's freshwater reserves were sixth in the world. Moreover, its per capita reserves were less than one-fourth of the world's per capita reserves, and the impact of population on its freshwater reserves was greater than 4. China's potential per capita freshwater reserves were only one-fourth of the United States', one-fifteenth of Brazil', one-seventeenth of the Soviet Union's, one-twenty-sixth of the Panama's, and one-forty-eighth of Canada's. It is obvious that China is a country deficient in freshwater.

We can draw the following conclusions from this analysis of the impact of population on China's environment: The per capita level of China's natural resources is lower than the world's per capita level; we must vigorously control the size of our population if we are to moderate the impact of its increasing growth on the environment; and we must make protection of the natural environment the order of the day if we are to create the excellent conditions needed for China to develop.

**Progress in Gansu's Family Planning Efforts**

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[Text] Beijing, February 25 (XINHUA)—Gansu Province in northwest China has made rapid progress in

implementing the national family planning policy, the PEOPLE'S DAILY reported today.

Its annual population growth rate has dropped from 27 per thousand in the early 1980's to 21.3 per thousand at present.

About 100,000 cadres and specialists have been sent to rural areas to launch a publicity drive for the policy while helping people to solve their problems and boost production.

## AGRICULTURE

### Shanxi Grain Purchase, Sales System Reforms Assessed

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[Article by Guo Shutian (6753 2579 3944), Tang Renjian (0781 0088 0256), and Bai Tianshan (4101 1131 1472)]. "A Follow-Up Investigation of Shanxi's Grain Purchase and Sales System Reforms"

[Text] More than two years have passed since 1 April 1988, when Shanxi became the first province to focus on curtailing grain sales at state prices and reducing contract purchase quotas as a means of reforming the grain marketing system. Shanxi has had considerable success in implementing these reforms: Reducing the number of contract purchase quotas has significantly stimulated peasant enthusiasm for grain farming and increased effective grain supplies; and curtailing grain sales at state prices has checked imprudent consumption and saved an enormous amount in financial subsidies. The affected departments, as well as all interested parties—producers, consumers, entrepreneurs, and urban enterprises—have given grain reform their unanimous approval and support. The key reasons for this are that the ideology and methods of grain system reform Shanxi has adopted are on target, the course of action is meticulously planned, when problems arise we can act according to circumstances, and policy decisions are handled resolutely. Because of these factors we have been able to explore a comprehensive set of effective methods for regulating our grain market, providing valuable experience for all other regions of the country attempting similar reforms.

#### I. The Elements of Reform

1. **We have reduced grain sales at state prices.** (1) Since 1 April 1988, (1 May in Taiyuan), grain sales at state prices have been conducted only in the following instances: to guarantee the basic grain ration of 28 jin per month for the nonfarming population; for grain procured by military officers; and for fixed, standard grain rations for students in colleges, polytechnic secondary schools, and middle schools. (2) Grain rations for truck farmers and grain set aside for pig fodder is supplied at the inverse 3:7 price ratio. (3) All grain grown for use in industry, bakery goods, nonstaple food products, and brewing, all types of subsidy grains; and all grain for rural supply have been deregulated and switched to negotiated

pricing and market regulation. In order to make up for consequent increases in consumer spending on nonstaple food products, the state has provided a subsidy of three yuan per month to all workers and staff.

2. **We have reduced contract purchase quotas.** (1) We have examined the agricultural tax and reduced it from 430 million jin to 300 million jin. (2) When the 1988 autumn grain harvest went to market we adjusted the contract purchase quotas on wheat downward by 400 million jin and switched to "negotiation rather than purchasing at state prices" (prices are the same as for negotiated purchasing) and the price rose 0.10 yuan per jin that same year. In 1989 the purchase price rose again, to 0.58 yuan per jin.

3. **We have instituted guarantees for grain purchases, sales, transfers, and financing.** (1) Grain purchase guarantees: From 1988 to 1990 the province's guaranteed purchase quota with prefectures and cities totalled 1.9 billion jin of trade grain. This included 1.6 billion jin for purchase quotas and 300 million jin for agricultural taxes. Later, because of the reduction in contract purchase quotas, the guaranteed base figures were reduced to 1.5 billion jin. (2) Grain sales guarantees: The 1988-1990 standard for guaranteed grain sales at state prices was analyzed and set for prefectures and cities based on the basic 28 jin per person per month rationed for our nonagricultural population, and also considering population growth, which raised the total quantity of rationed grain by three percent per year. (3) Grain transfer guarantees: The difference between the guaranteed purchase figure and guaranteed sales figure for each prefecture and city is the guaranteed grain transfer figure. If the guaranteed purchase figure exceeds the guaranteed sales figure, the difference is the guaranteed figure for grain transfers out of the province; if the opposite is true, the difference is the guaranteed figure for grain transfers into the province.

4. **We have deregulated purchase and sales prices for nonstaple foods.** In step with reforms in the grain purchase and sales system, prices of meat, eggs, sugar, and vegetables have been completely deregulated since 1 May 1988. For administrative and institutional workers and staff, the nonstaple food subsidy has been changed to an express subsidy. By contrast, for enterprise workers and staff the enterprise itself provides a subsidy: 60 percent of the subsidy funds can be figured into costs, and 40 percent must be paid out of profits. The standard nonstaple food subsidy does not exceed 10 yuan per worker per month in Taiyuan, or eight yuan per month elsewhere. All students at colleges, middle schools, and polytechnic schools receive a subsidy of eight yuan per month, and recipients of disabled servicemen's or revolutionary martyrs' benefits receive a subsidy of six yuan per month.

#### II. The Effects of Reform

1. **We have expanded production.** The fact that Shanxi reduced contract purchase quotas at the same time it curtailed sales at state prices produced major material

benefits for the peasantry. Peasant incomes increased 44.39 million yuan in 1988 and 260 million yuan in 1989 due to reduced contract purchase quotas. Prompted by heavy profits, peasants all across the province were more enthusiastic than they have been for many years about increasing material inputs into grain production, adopting scientific and technological methods, and increasing intensive cultivation. Consequently, although the area of land under grain cultivation in Shanxi remained stable at about 15.2 million mu in 1988 and 1989, unit grain yields rose 50 jin and 16 jin in those years, respectively. This included a 42 jin per mu increase in the 1989 wheat yield over 1988. Thus, our gross grain output grew 2.116 billion jin in 1988 and 1.216 billion jin in 1989, including a two year increase of 940 million jin in the gross wheat yield.

**2. We have curbed grain consumption.** By curtailing grain sales at state prices Shanxi not only reduced such sales by 1 billion jin in 1988 and 1.3 billion jin in 1989, it also decreased negotiated grain sales somewhat. In 1989 negotiated grain sales declined by 370 million jin from the previous year. In particular, after grain produced for industrial uses was withdrawn from the centralized sales system, because enterprises augmented their strict control over industrial grain and blocked many of the loopholes, and because after subsidies were enacted for workers and staff enterprises did not necessarily buy back the grain strictly according to the standard figures, grain consumption was curtailed and waste was reduced. Prior to reform the issue rate for grain coupons exceeded the redemption rate; now the reverse is true. The circulation of grain coupons in Shanxi dropped by the equivalent of 460 million jin over two years.

**3. We have saved on monetary subsidies.** In 1987, prior to grain reform, Shanxi spent 600 million yuan to subsidize grain oil production, an increase of nearly 500 million yuan—or 70 million yuan per year—over 1980, when the grain oil subsidy was 180 million yuan.

After 1988, although the total subsidy continued to increase somewhat (it measured 630 million yuan in 1988, 710 million yuan in 1986 [as published], and 840 million yuan in 1990), this was primarily due to certain policy factors such as major increases in interest and production costs, rather than increases in grain sales at state prices. The percentage of total fiscal expenditures applied to grain oil subsidies fell from 13.8 percent in 1988 to 13.4 percent in 1989, and projections indicate the level reflected in the past two years will continue throughout 1990. Looking at growth rates for grain oil subsidies in absolute amounts, China's grain oil subsidy expanded 8.5 percent in 1988 and 42.2 percent in 1989, whereas Shanxi's grew far less—only 5 percent and 12.2 percent in those two years, respectively. According to estimates generated in the departments concerned, if there had been no reform Shanxi's annual grain oil subsidy would long ago have surpassed 1 billion yuan.

**4. We have kept commodity price levels in check.** People were previously worried that the deregulation of grain

prices would precipitate an across-the-board increase in the entire commodity price index. But judging from Shanxi's practical experience over the past two years, this concern is entirely unwarranted. Over the past two years since grain selling at state prices was curtailed, although Shanxi's commodity price index has increased considerably, the curtailment of grain sales at state prices and the reduction in contract grain purchase quotas have stimulated peasant enthusiasm for grain cultivation, thus expanding production and increasing supplies, so that market prices for grain and grain-related products have fallen again. Thus, grain prices have kept composite commodity prices in check. In the first half of 1990 Shanxi's commodity price index increased 1.9 percent, which was 1.3 percentage points less than the average 3.5 percent increase for China as a whole. In Jinzhong Prefecture the commodity price index for the first half of 1990 actually decreased relative to the same period of 1989. Even if we look at the reasons for the high commodity price index in 1988 and 1989, the problem was not, as many people think, precipitated by an increase in the grain price index. According to a sober reassessment of the situation conducted by the Shanxi finance department, grain bureau, pricing bureau, and other related departments, the direct impact of grain prices on the composite commodity price index did not exceed 2.5 percentage points, and even considering in direct impact it did not exceed five percentage points. There is no basis for saying that the increase in grain prices accounts for more than 40 percent of the considerable inflation in commodity prices. In any case, even if there is temporarily a significant increase in the grain price index, if control over other commodity prices is strengthened, the composite commodity price index will not necessarily exceed planned levels.

**5. We have explored and accumulated experience in reforming the grain purchase and sales system.** Some people think that the effective reforms Shanxi has instituted to date in the grain purchase and sales system can be considered a successful example of organic integration between a planned economy and market regulation. I feel this is no exaggeration. The difficulty, and the breakthrough, in resolving China's grain problems lies in finding a way to intensify reform in the grain purchase and sales system.

### III. Auxiliary Reform Measures

**1. We have established more grain storage.** In order to deal with the panic buying that might occur in various places, when grain reform was instituted on 1 April 1988 it was suggested that on a province-wide level we should process and store 100 million jin more flour than usual. The decision was made after careful deliberation, and Shanxi established the "C" granary that same year. As of now it stores 470 million jin of grain, or approximately 10 percent or more of the province's grain for sale at par. In 1989, when grain prices rose above normal Shanxi's grain departments planned to unload 300 million jin of grain on the market. Later they actually unloaded only 150 million jin, but that amount nevertheless lowered grain prices. Although in the



beginning there was some panic buying and a few individuals hoarded many tens of sacks of flour, because we had a strong reserve to back us up this abated rather quickly and did not cause market fluctuations.

**2. We compensated residents for essential profits.** After negotiation was introduced in industrial grain procurement, consumers could still receive a subsidy to make up for the difference between negotiated prices and par. Administrative and institutional employees received subsidy payments from administrative and institutional funds and enterprise employees were granted subsidy payments by the enterprises themselves. These subsidies could be figured into enterprise costs or paid out of profits, and were calculated based on wages. The grain bureau and market commodity prices bureau in each locality assesses and announces these subsidies seasonally. In addition, in order to prevent the inflated prices of grain-related, nonstaple food products, such as soy sauce, vinegar, and baked goods from having an excess impact on consumer interests, Shanxi also raised subsidies three yuan for workers and staff. This safeguards consumer interests and ensures that reforms progress smoothly.

**3. We have implemented the "three no's" policy.** After the new grain supply method was instituted, while Shanxi was reducing grain sales, in order to prevent the grain coupons and verifications of over-quota surplus grain that residents held from affecting the grain market, we repeatedly and clearly announced that they would not be abrogated and could be used to purchase prepared foods and the like on a one-for-one equivalent basis. However, if residents were willing to sell surplus grain, grain departments could negotiate to purchase or exchange other foods for it on the spot.

**4. We have adopted protective pricing for grain procurement.** At the end of 1988, when prices on the Shanxi corn market dropped to about 0.15 yuan per jin, the grain department immediately used public finances to purchase corn at the protected price of 0.20 yuan per jin. This reinforced peasant enthusiasm for grain farming. In 1988 the protected base price for negotiated grain procurement rose 0.10 yuan per jin over the previous year, and in 1989 200 million yuan of public funds were used to raise the protected base price for wheat to 0.58 yuan per jin. To safeguard peasant enthusiasm for wheat farming, when the market price for wheat fell recently to 0.43 yuan per jin the provincial authorities promptly and opportunely decided to allocate 14 million yuan to raise the protected wheat base price to 0.50 yuan per jin. Instituting these protected prices has undoubtedly safeguarded the interests of peasant producers.

**5. We have instituted control over the differential rate of purchases and sales of major commodities.** Shanxi has stipulated different differential rates for more than 500 kinds of commodities in eight major categories. This is an essential measure to prevent "freight-related" price inflation on export commodities, which might then have a backlash on grain reform.

**6. We have instituted control over gross profit rates on processed grain products.** The gross profit rate is generally held to three-five percent.

**7. We have designated maximum price limits for grain sales during unusual times.** Grain sales at state prices have been reduced, replaced with negotiated pricing, but this does not mean that the government has adopted a totally hands-off policy on prices, allowing them to fluctuate frequently and spontaneously in response to market supply and demand. From the end of 1988 to 5 July 1990, during a period when prices soared on the grain market, Shanxi instituted maximum limits on grain selling prices (for example, the price of flour was limited to 0.50 yuan per jin, and grain oil was limited to 2.40 yuan per jin). Although in some places these limits were not effective, or not completely so, in any case we cannot ignore the important role they played in stabilizing the grain market, calming fears, and thus strengthening confidence in grain reform. But when market grain prices slumped we immediately eliminated the maximum price limit.

#### IV. The Problems Now Facing Grain Reform

Right now, as is true nationwide, Shanxi is blessed with a gratifying grain production situation. Building on the base of an increase in gross grain output in 1989, in the 1990 summer harvest, both the gross grain output and the unit yield broke records: our gross grain output reached 6.386 billion jin, up 4.5 percent over the previous record, and the unit yield reached 419 jin, up 4.8 percent over the previous record. Except in Yuncheng Prefecture, which has suffered a rather serious drought, the autumn grain crop is also growing well. On the other hand, serious grain "sales, storage, and transfer problems" have emerged in the grain circulation system.

**1. Peasants are having problems selling grain at negotiated prices.** After this year's bumper wheat harvest most local grain departments purchased only "the five grains": agricultural tax, contract purchases, yi ding ping [6231 7307 1627], and yi zhuan ping [6231 6567 1627], and commodity base grain. They touched none of the rest. Estimates have it that in Yuncheng and Linfen alone peasants are holding at least 200 million jin of wheat that remains to be sold.

**2. Reserves are bursting at the seams.** From April to December 1989 Yuncheng planned to transfer 330 million jin of wheat and 100 million jin of flour out of the prefecture, but actually transferred only 210 million jin of wheat and 70 million jin of flour. In 1986 [as printed] the provincial government planned to buy more than 400 million jin of free-market wheat, adding at least 300 million jin to overstocks.

**3. Market grain prices have dropped drastically.** At its highest, the price of wheat at country markets rose to 0.70 to 0.80 yuan per jin in 1989, and the negotiated price stabilized at 0.58 to 0.60 yuan per jin. This year the market price has continued to drop and the negotiated price has correspondingly declined 25.9 percent, to

about 0.43 yuan per jin. Because prices have declined much more than output has grown, in many regions output has grown but income has not—even to the extent that the more grain is produced, the less income is created. Peasant enthusiasm for grain farming has been severely damaged. The provincial government and authorities are very concerned about this problem and are preparing to allocate 14 million yuan to raise the negotiated price from 0.43 yuan to 0.50 yuan per jin.

**4. There is a severe shortage of storage facilities.** In a normal year Shanxi is short about 3 billion jin of storage capacity. About 2 billion jin of our grain reserves are currently stored out in the open. The storage capacity in Yuncheng Prefecture is 910 million jin. Although the prefecture made every possible effort to make room and incorporate storage facilities during this year's summer procurement period, it still fell short 600 million jin. There is 750 million jin of granary capacity in Linfen Prefecture. After storage facilities were incorporated 200 million jin of grain remained for which they had to rent storage space from those who just pile it in the open air. Recently the central government decided to build simple storage sheds to hold 8.5 billion jin of grain, but because Shanxi is not a key wheat producer, it was not included in this plan.

#### **V. A Plan for Intensifying Reform**

1. We should continue to provide guarantees on grain purchases, sales, transfers, and financing. In 1991 we will readjust guaranteed grain base figures nationwide. In order to stimulate enthusiasm among grain farmers, and in grain producing regions we must reduce the burden on these regions to an appropriate degree and correspondingly increase the burden on grain-selling regions, particularly economically developed coastal grain-selling regions. Specifically, wherever suitable, we must make the following changes: For producing areas, we should reduce responsibility for fixed purchase quotas and state-planned outward grain transfers; and for selling areas, we should increase responsibility for fixed purchase quotas and decrease base figures for inward grain transfers. In order to encourage local areas to take the initiative in reducing grain sales at par or increasing the parity price for grain sales, we must pass on to them the consequent advantages. In principle, as far as sales for most provinces are concerned we can retain the original guaranteed annual base figures (Shanxi's base figure for inward grain transfers is 1.44 billion jin), and three years is still a suitable length of time for guarantees to remain in effect. Recently the Shanxi provincial government decided to launch a pilot project in Yicheng and Tunliu Counties to "classify farmland by grades and scientifically determine the associated peasant burdens." Given the precondition that the overall level of peasant burdens should not be increased, the purpose is to classify farmland comprehensively, systematically, and scientifically into grades, and on that basis to determine reasonable agricultural taxes and state grain purchase base figures.

2. We should increase the purchase price for grain. Although it will be very difficult to resolve the issue of

declining grain prices in any fundamental way, we nevertheless must try. No matter what happens, this issue is unavoidable. The price of grain purchased to satisfy fixed quotas must be readjusted in light of a reasonable price parity between grain and fertilizer. Figured on this basis, we should raise the price of grain purchased to fulfill fixed quotas to at least 0.08 to 0.10 yuan per jin. Authorities in Shanxi's grain and commodity pricing system are unanimous in the opinion that if we do not raise the price of quota grain by about 1 mao per jin, it will not be enough to spur any interest in grain farming. As for the price of grain purchased through negotiation, we must establish minimum and maximum guaranteed prices, set neither too high nor too low. In setting these prices we should uphold the principle that "grain should be priced slightly lower than market price."

**3. We should thoroughly reform the urban grain ration sales system.** Whether the urban grain ration can be changed has always been a "taboo subject." However, if we are to intensify reform we have no choice but to encroach upon that taboo. Right now Shanxi is considering whether to make changing the grain ration a key measure in the next phase of intensification of grain reform. This is a bold idea. We feel we must approach this issue conscientiously; we cannot be too careful. In particular we might adopt the following measures:

In step one, the quantity of grain rations would temporarily remain the same, but the price of polished rice and refined flour would increase. Considering that we are now in a phase of improving the economic environment and rectifying the economic order, that the real standard of living for urban residents has declined significantly over each of the last three years, that economic returns on enterprises are not as good as they should be, and that urban residents cannot withstand much more strain, it is best for the grain ration quantity standards to remain temporarily unchanged. However, we could make acceptable changes in the price of polished rice and refined flour sold under the state monopoly. At the same time as we pull back the price of lower quality goods we could raise the overall price level on state monopoly sales. Where conditions permit we could even make appropriate increases in the prices all state monopoly goods, including ordinary varieties of grain.

In step two we would make appropriate reductions in the quantity of grain rations and increase the prices of all state monopoly goods. As it is now, surveys indicate that for urban residents the grain ration standards indeed exceed actual consumption by 20-25 percent—the equivalent of about 6-7.5 jin. Consequently, beginning with the second year of the Eighth Five-Year Plan (1992), we would consider decreasing the urban grain ration standard from 30 jin, as it is now, to around 23-25 jin. At the same time, we would substantially increase selling prices across the board. The state would then adopt a one-time express subsidy to help consumers defray the greater expense of buying a reduced grain ration at a higher price. Since this step of reform would have a relatively major impact on city dwellers, the country as a whole

should take centralized steps to achieve it rather than adopting a decentralized policy.

In step three we would deregulate the prices of grain ration sales and adopt essentially identical prices for buying and selling. In the latter stage of the Eighth Five-Year Plan we could promote thorough reform involving "guaranteed quantities, but no guaranteed prices." "Guaranteed quantities" means retaining a fixed-quantity grain ration. This is necessary even if the grain ration price is completely deregulated, because in this way we can guarantee the basic necessities of life for urban residents. It would be unlikely that in times of grain shortage and price inflation there would be no grain available, so this would help to calm people's fears and stabilize society. "No guaranteed prices" means that grain selling prices would be completely deregulated and would fluctuate with supply and demand. This certainly does not mean that the state would adopt a total hands-off policy toward grain ration selling prices. On the contrary, it would still issue guiding prices, it is just that market prices would be the key reference point for determining guiding prices. The commodity pricing departments and grain departments would appraise, set, announce, and implement specific guiding prices according to season. After grain ration prices were thoroughly deregulated no new grain coupons would be issued; residents would buy the grain they needed. As for surplus grain coupons city dwellers might hold, we could elect to gradually redeem them at the current par, spend public money to buy them back, agree to accept grain coupons for milk, or exchange them for other foods.

**4. We should establish grain adjustment reserves and price contingency funds.** Establishing grain reserves will allow us to issue grain when grain supplies are short, but it cannot solve the problem of what to do when there is a grain glut. For that we must establish a stable, reliable price contingency fund. Otherwise when the price of grain falls again and again we can only watch while rural profits are devastated and we have no means to protect them. Establishing grain adjustment reserves and price contingency funds are two effective, equally important measures in the state's effort to strengthen macroeconomic regulation and control over the grain market. We must address this issue on an organizational level as early as possible. To raise price contingency funds we must rely on the following sources: planned allocations from central and local public coffers (including foreign exchange); a portion set aside from grain department profits on negotiated grain sales; any surplus from subsidies granted due to decreases in grain sales at par or increases in the parity price; a portion of bank loans and financial discounts; special grain fees collected from industrial and commercial enterprises; relevant fines and confiscated funds; and so forth. We should strive to use grain adjustment reserves to increase or decrease the supply of grain as needed to maintain circulation.

**5. We should keep the grain market open throughout the year.** Right now in many areas the grain market runs on a county level and is only opened after contract purchase

quotas are completely met. This, of course, means that it is not open for very many months. Moreover, some places will not open the market until contract purchase quotas are met for autumn grain as well as summer grain, and for paddy as well as wheat. In these cases grain markets are open even less than elsewhere—generally less than a month—which is tantamount to not being open at all. As a result, we feel that grain markets (not only country fair trade) should be open all year (and include husked rice). As for the issue of whether contract purchase quotas can be fulfilled, this can be resolved by other means. Given current grain-selling difficulties, Xin Autonomous Prefecture in Shanxi announced—along with a pledge that it would have no impact on planned provincial and prefectural grain purchase, sales, and transfer guarantees—that the grain market would be open during the "five grain" procurement period. Indeed, it not only did not affect the achievement of "five grain" purchasing responsibilities, on the contrary, it stimulated grain circulation, alleviated grain-selling problems, and was widely welcomed by peasants and entrepreneurs. We should establish central and local wholesale grain markets in order to free grain for market regulation between prefectures.

#### Survey of Northeast Agricultural Issues

91CED03634 Beijing *NINGJIAN GONGZUO  
TONGXUN* [RURAL WORK NEWSLETTER]  
in Chinese No. 12, 5 Dec. 90 pp. 3-5

[Article by Shi Weiguo (0670 4850 0948), Liu Xueyi (7120 1331 5669), and Guo Yuhua (6753 0060 5478): "When There is a Bumper Harvest, Pay Even Closer Attention to Peasant Interests"]

[Text] Editor's note: This survey comes to grips with the crux of all agricultural and rural issues—peasant interests. In the final analysis, all agricultural and rural issues have to do with the initiative of peasants. To mobilize their initiative, we must protect their interests properly. In light of the situation in rural areas today, this survey calls on us to understand the agricultural situation now and in the days ahead. The more bountiful the harvest the greater the need to protect peasant interests. When the circumstances are favorable, reform the grain circulation system. The starting point is safeguarding the initiative of peasants. Therefore, the survey also puts forward specific proposals in the hope that these issues will catch the attention of policy-making agencies at all levels. In short, this survey both grasps the crux of the issue and proposes solutions. Surveys like this should be strongly encouraged. We hope that the large numbers of workers in the field as well as theoretical workers will produce more surveys that combine theory with reality closely to expedite rural reform and development.

#### Super-Harvest in the Northeast This Year

During August and September 1990, we were in Liaoning, Jilin, and Heilongjiang Provinces, being briefed by comrades in charge of agriculture about the situation in rural areas. We also did field studies in counties and



municipalities of Liaoyuan, Donghao, Dongfeng, Gongzhuling, Suihua, Qingan, Qinggang, and Zhaodong, and had informal discussions with local cadres and peasants. We learned that it was now known for sure that the countryside had a bumper harvest across the board this year and the masses and cadres were delighted. But the joy is tempered with worry. They are concerned that after fall the procurement and marketing policies for agricultural products will be unfavorable to them. Bumper production may not bring more income.

In 1989, the three provinces in the northeast were hit by a bad drought, the seriousness of which had not been seen for years, and reduced output of grain and other crops. In 1990, as a result of a conscientious effort to implement the decision of the CPC Central Committee and State Council to seize bumper harvests, the basic policy was not tampered with and people regained confidence. Cadres and the broad masses of peasants worked hard. The heavens were particularly helpful. It rained when we needed rain and shone when we needed sunshine. Often it rained at night but was bright and sunny during the day. Frost was also late in coming. The cadres and masses all said, "The northeast had the best harvest in decades. Whether it be grain or cash crops, what we sowed all managed to grow. The increase in yields was even and across the board." According to agricultural departments in the three provinces, the total grain output of Liaoning will reach 14 billion kilograms this year, 4.5 billion more than last year. In Jilin, total output will be 18 billion kilograms, up 4.5 billion kilograms and in Heilongjiang, 19 billion kilograms, an increase of 2.8 billions. The combined grain output for all three provinces this year will be 11.8 billion kilograms more than 1989. Since 1989 was a disastrous year marked by a 7.25 billion kilogram drop in grain output, the grain yields in the three provinces in 1990 rose 9.4 percent over 1988.

#### **Joy and Worry After the Bumper Harvest**

Increased grain output, bumper harvests, extricating ourselves from dire circumstance, and agricultural stagnation coming to an end. All this was what urban and rural people hoped for and worked hard to achieve. This year it has really come true. This is certainly a wonderful thing. During our 20 plus days we spent in the northeast, we saw that there was social stability in both cities and the countryside. The market was thriving and prices were stable. The masses lived and worked in peace and contentment. Because the weather was so good this year, vegetable farmers had a bumper crop, which means bountiful supplies of vegetables, fruits, and melons, and satisfied customers.

In times of grain shortages, people hope for increased yields and bumper harvests. Now that a bountiful harvest has really materialized, with grain output jumping 10 billion kilograms in one stroke, one worries how one is going to procure, dry, store, transport, and sell all the grain.

1. Peasants have three fears. One, they fear that they will have trouble selling grain after fall or that they may have

to sell it at low prices. Their experience is that when grain is in short supply and grain departments have a monopoly on grain trade, they can only sell to the grain stations. When grain is plentiful and sales channels abound, it effectively means that nobody is in charge. This year the state has specifically set up grain reserve bureaus and the grain departments neither refuse nor limit procurements. This has eased their concern somewhat. However, what worries the peasants even more is grain procurement prices. How much will the guaranteed price be? This is what peasants have been waiting anxiously to find out. Last year the negotiated procurement price for corn was 0.60 yuan per kilogram in Liaoning and 0.56 yuan in Jilin and Heilongjiang. These prices were what the peasants had in mind when they planted their corn crop this year and greatly boosted inputs like chemical fertilizers and plastic film. But while the costs of growing grain have gone up, the market is sluggish and grain prices everywhere have been slipping. In country fair markets in Liaoning and Jilin, the price of corn has dropped to 0.48 yuan per kilogram and on some markets in Heilongjiang, even 0.44 yuan. There are no buyers even at that price. According to estimates of concerned departments, if the guaranteed price of corn in Jilin and Heilongjiang is set below 0.50 yuan per kilogram, the peasants will suffer heavy losses. Second, peasants fear that they will not be paid in cash for their grain, getting back only an IOU in return. The fear is particularly real in the three northeastern provinces where a weak industrial sector has been suffering heavy losses and is strapped for funds. Since the government has to procure extensive amounts of grain and agricultural byproducts after fall, it looks as if it will have no choice but to write out IOU's, barring some special measures. In fact, it is already paying for some vegetables, flax, and tobacco with IOU's. Three, peasants fear that departments will take advantage of the bumper crop this year to levy all kinds of fees on them. The banks may collect loan repayments; education departments may collect education funds and raise capital for education; irrigation and water conservancy departments may collect water conservancy fees, and township and village-level organizations may collect retained funds that have been unpaid for years. What extra income the peasants may earn from their bumper crop will not be able to cover all these bills.

2. Grain departments are worried. In 1989, grain output declined in the northeast. To ensure social stability, grain departments in all three northeastern provinces procured a little extra grain and cut back on shipments outside the region. Subsequently the grain situation in the country has changed. With their warehouses bulging with large stocks of grain, the provinces now want to sell and ship the grain out of the provinces. But try as they might, they still cannot get rid of it. At present there are 5.75 billion kilograms of old grain in stock in Liaoning, 6 billions in Jilin, and 7 billions in Heilongjiang. Not only do these large quantities of grain take up space in the warehouses, but they also tie up a substantial amount of funds. How to procure so much grain? Where will the

money come from? Where to store it? How is it to be transported? Even more important, at what prices should grain be procured? At what prices should it be sold to other provinces? To whom? When it is sold below cost, who will make good the losses? This string of questions is plaguing cadres in grain departments.

3. Cadres are also worried. First, rural grassroots cadres. This spring they trudged from household to household, doing calculations with their fingers and trying every way to persuade peasants to grow more grain and use more inputs. They confidently took it upon themselves to guarantee that once they increase output, the peasants will also make more money. Now the grain is being put on the market, yet grain prices in the country fair market have kept falling. As they realize that peasants are not making more money even after they reaped a bumper harvest, they can only hope that the government's guaranteed prices can look after the peasants' interests. If guaranteed prices are also set too low, then how are they to mobilize the peasants to grow grain next year? As for leading cadres above the county level, they have even more worries. On the one hand, they have to consider peasant interests and protect their production initiative. On the other hand, they must consider the fiscal capability of the locality. Because of the crop failure in 1989 and the resultant high grain prices on the market, consumers had to be subsidized. This year a bumper harvest has sent grain prices tumbling, so the government has to consider subsidizing producers. But Jilin and Heilongjiang are major agricultural provinces with serious fiscal problems. Some counties are not even paying comrades on a monthly basis any more. With the glut of grain this year, provincial finance departments simply do not have the means to subsidize peasants.

#### **The Need To Protect Peasant Interests is Even Greater Now That We Had A Bumper Harvest**

It is estimated that grain output nationwide will increase five percent or so, the largest increase since 1985 and the best performance on the agricultural front during the Seventh Five-Year Plan. The situation is good, but it has raised new questions. For instance, a major topic in rural work right now and one that will have a critical impact on agricultural development next year and in the future is how to deal with the aftermath of increased agricultural output. As we see it, the following issues must be dealt with properly:

First, correctly understand the good agricultural situation this year and agricultural development in the years ahead. On the one hand, we must fully endorse every single effort made in recent years to boost agriculture. On the other hand, we must clearly realize that agricultural productive forces in China remain quite fragile and some factors hampering agricultural development have not been neutralized. Never are we to imagine that the problems have been solved and hence relax our support for agriculture just because of the bumper harvest this year. If we do so, agriculture may stagnate once again.

Second, grasp the favorable opportunity to reform the grain circulation system. Since last winter, peasants in most grain-producing areas have experienced difficulties selling their grain while grain departments have had trouble marketing grain. With grain yields up across the nation this year, these problems will only get worse in the major grain-producing areas. As far as the total volume is concerned, even if total national grain output reaches 425 billion kilograms this year, it would still amount to just 376 kilograms per person, below the level in 1984 and lower than the world average. Why then do so many people say they have trouble selling off their grain? This shows that the existing grain circulation management system is out of place. If a planned commodity economy is to be introduced in China, we must reconcile the interests of five parties—producers (mainly peasants,) operators (grain departments at all levels,) consumers (mainly citizens), local authorities, and the central government. These days the producer produces according to market prices. The consumer is supplied with a fixed quantity of grain, in effect a form of welfare, a kind of income. The operator practices economic accounting as an enterprise and demands to make a profit. The local government, whether it exports grain or imports grain, regards grain as a bargaining chip to be used in demanding revenues from the central government. The central government is the manager in overall charge of this super household with 1.1 billion people. Each year it has to shell out over 40 billion yuan to subsidize grain prices, which is indeed too onerous a burden. In times of crop failure, market grain prices rise and peasants are reluctant to sell. To ensure grain availability, governments and grain departments at all levels procure extensively in grain-deficit areas and restrict grain sales in grain-producing areas. The result is a grain war, artificially exacerbating grain shortages and causing grain prices to soar. In 1989 there was a bumper grain crop; in addition, over 20 billion kilograms of grain were imported this year. Following the bumper harvest this year, grain prices have been falling on the market. With grain supplies adequate, grain-deficit provinces have slowed down the pace of transferring grain into the provinces (to save money on warehouse upkeep and interest payments,) buying just enough to make up for the amount that has been consumed, at the same time waiting for the prices to drop further. Grain-producing areas, for their part, demand that both old and new grain be shipped out together and since there are no buyers, there is no alternative but to pass on the burden to the peasant by limiting or refusing procurements. Hence the problem of not being able to find a buyer for one's grain. Essentially, therefore, the issue of being unable to sell one's grain is a problem of the unequal distribution of interests. It has to do with the fact that the current grain management system does not meet the operational requirements of the planned commodity economy. There is no alternative but to reform this system. The bumper crop this year provides some breathing space in grain supplies. We should use this favorable opportunity to reform the grain circulation system. We should grab

this opportunity and reform at the right time. Do not let this once-in-a-lifetime chance slip by.

Third, the starting point and cornerstone in the reform of the circulation system is protecting peasant interests. This July the State Council promulgated the "Decision on Improving Grain Procurement and Marketing Work." More recently it decided to introduce a special grain reserve policy. Peasants in grain-producing areas are particularly pleased that the government has explicitly declared that it will not restrict or disallow grain procurements, that it would introduce guaranteed prices, and that it would not issue IOU's. The question is how to carry out all this in a coordinated way.

According to what we learned in the northeast, what the peasants are waiting for most eagerly is the guaranteed price this year. Departments too are waiting for them. At the heart of the issue of protecting the enthusiasm of peasants for growing grain is grain prices. After the bumper harvest of 1984, the state also announced that guaranteed prices would be introduced. But the prices that finally emerged were nothing more than grain monopolistic procurement prices. In effect there was no protection at all. Consequently grain peasants suffered extensive losses, their enthusiasm for growing grain diminished. This directly led to the sharp drop in areas sown with grain in 1985 and a major decline in grain output that same year. This is a profound lesson. Corn is the staple crop of the three northeastern provinces, yet the price of corn on the market has dipped below 0.44 yuan per kilogram, 21 percent lower than that in 1989. Yet the corn crop in the northeast rose more than 20 percent this year compared to last year. Even as peasants increased their inputs, they did not increase their earnings. In fact, a considerable portion of them have seen their earnings decline. Earlier the peasants had increased inputs substantially, thus pushing up costs above last year's level. Inevitably they will have less enthusiasm for growing grain next year. Meanwhile, grain departments and the local finance departments cannot afford to raise protection prices once more. Accordingly, the question of protecting prices must be considered by the central government in an overall context and be determined on a macroeconomic level. Given the current set of circumstances, if we let the market determine grain prices, such prices will certainly fluctuate wildly. When that happens, the state must protect the prices so as to maintain peasant incomes at a reasonable level.

We have two concrete suggestions regarding the agricultural situation this year.

First, guaranteed prices must be set at a proper level in order to really serve their purpose of protecting peasant interests. For this reason, the Ministry of Finance must not begrudge setting aside a sum of money, which need not be too big but will serve a major purpose. (If the guaranteed price for corn is set at 0.50 yuan per kilogram in the northeast this year, it would only take an extra 300 to 400 million yuan to procure 2.5 billion kilogram at negotiated prices, effectively keeping intact the peasants'

enthusiasm to grow grain and ensuring continued development in agriculture next year and in the future.) The lesson of history is that when the agricultural situation is grim, we must spend money, a lot of money, to aid agriculture. When the agricultural situation is good, we must also spend money, not much but doubly effective, to aid agriculture. This point was not given enough attention in the past. As soon as there was a bumper harvest, we always wanted to cut back on agricultural spending and squeeze more money out of the peasants, only to end up alienating them and undermining their production enthusiasm. Declining output in the following year means that the government will have to spend even more money.

Second, the state must ensure that funds are available to procure this year's bumper crop of grain, cotton, and other agricultural byproducts, using every means possible to pay for them in cash. In recent years, the state has issued numerous prohibitions against the use of IOU's. In fact, the practice of handing out IOU's is still very common. There are many reasons behind this, but an important one is the serious lack of procurement funds. For example, Heilongjiang will need 6 billion yuan this fall and winter to procure grain and agricultural byproducts. The province came up with 3.7 billion yuan after exhausting every channel, but it is still 2.3 billion yuan short. A shortfall of this magnitude cannot be made good by the province alone. There are only two ways out. One, disallow or limit procurements. Two, issue IOU's. Both will damage peasant interests and dampen their enthusiasm to produce. Thus it is proposed that the state increase the money supply. Ensure the procurement of grain and agricultural byproducts even if it means putting more money into circulation. These two measures will work in three ways: 1) Preserve peasant interests. If peasants make more money as well as harvest a bumper crop, they will remain enthusiastic about growing grain, thus ensuring steady and sustained agricultural growth this year and in the future, and stabilizing the countryside, which is vital. Rural cadres, peasants, everybody will be happy. 2) When the state pumps tens of billions of yuan in cash into the countryside, it will get back in return hundreds of billions of jin of grain and cotton as well as huge amounts of agricultural byproducts. These will be processed into industrial goods to be consumed, generating a reverse flow of cash. Not only will this expedite the development of the food, light, textile, and building materials industries, but it will also energize the long-sluggish market. Have we not been looking for stimulating mechanisms? Let us spend the money to buy grain—and give the economy a shot in the arm. 3) Right now is an excellent opportunity to reform the grain and agricultural byproducts circulation system, resolving problems that have remained unsolved for years.

Should the state, localities, and departments all take advantage of the bumper harvest and approach the peasant with outstretched hands, that is bound to damage his interests and dampen his production enthusiasm, which means hurting agricultural production next year and in the years to come. The stagnation that hit



agriculture after 1985 is still fresh in our memory. Thus we can arrive at this conclusion: the better the harvest, the greater the need for the government to protect peasant interests.

### Report on Shanxi Peasant Burdens

91CE0301A *Taryuan JINGJI WENTI [ECONOMIC ISSUES] in Chinese No 12, 25 Dec 90 pp 39-41*

[Article by Li Maolan (2621 5399 1526), affiliated with the Shanxi Agriculture and Animal Husbandry Department: "Thoughts on Shanxi Peasant Burdens"]

[Text] Increasingly heavy peasant burdens, which have not been lightened despite repeated attempts, have become a glaring problem that is affecting the close ties between the party and the masses and must be resolved now.

#### I. The Current State of Shanxi Peasant Burdens

Statistics show that Shanxi peasant burdens (including indirect burdens) averaged 74.2 yuan per capita, or 13.5 percent of per capita net income, in 1989. From the beginning of the Seventh Five-Year Plan in 1986 to 1989, Shanxi peasant per capita net income increased 38 percent, while peasant burdens increased 63.4 percent, and this 25.4 percent increase in burdens over income is more than peasants can bear.

Reports on peasant burdens vary when they are analyzed according to the following economic zone categories: 1) Suburban agricultural and industrial mining zones that make up about three percent of all rural areas (communes) throughout Shanxi, in which net income averages more than 1,000 yuan per capita, while peasant burdens are about 140 yuan and, as most of these burdens are collective, peasants do not feel that they are too heavy. 2) Flatland zones and villages surrounding county seats that make up about 15 percent of all rural areas, in which net income is higher than 700 yuan per capita, while burdens, some of which are collective, average about 100 yuan per capita, which peasants do not report as being too heavy. 3) Mountain, hilly, and flatland rural zones that have poor production conditions and make up about 58 percent of all rural areas, in which net income is higher than 400 yuan per capita, while burdens, which are borne basically by individual peasants because there is very little collective income, average more than 60 yuan per capita, which peasants generally report as being too heavy and ask to be lightened. 4) Remote mountainous and poor hilly zones that make up about 24 percent of all rural areas, in which net income is less than 300 yuan per capita, while burdens are about 40-50 yuan per capita. Where there is no collective income, these peasants are unable to make ends meet and depend on relief, aid, and loans for their livelihood, while collectives rely on selling timber or fixed property to meet daily expenses. These peasants complain vehemently about their burdens. This analysis shows that while reports on peasant burdens vary according to the differing strengths of the collective and household economies in various zones, peasant burdens are generally too heavy, despite the fact that most of

them are paid out of collective income and individual peasants do not foot the bill in rural areas with developed collective economies, which conceals their essential weight.

#### II. The Causes of Heavy Shanxi Peasant Burdens

The weight of peasant burdens can be seen in that they are unreasonable (i.e., the so-called "three arbitraries" of arbitrary apportionment of expenses, collection of fees, and imposition of fines) on one hand, and in that they are rational but exceed fixed limitations on the other. Their causes are roughly as follows:

1. A lack of supervision and exceeding of fixed limits arbitrarily: While the State Council and the Shanxi Party Committee and Government have issued repeated injunctions to conscientiously lighten peasant burdens, negligible results have been achieved in lightening them despite repeated attempts. This was caused by one, a lack of clear and authoritative supervision and control organs and legal institutions and two, certain higher departments overestimating the extent of peasant prosperity and thus, shifting burdens onto peasants under the slogan of "big government." A 1989 survey of peasant burdens in Xinjiang County found that 25 of the 43 were unreasonable and involved over 20 government offices. A survey by the management and administration center in Licheng County of peasant burdens in 12 townships and 162 villages throughout Shanxi found that they not only came in a multitude of names, but also were duplicated. Some rural peasants not only paid "two loads and one fee" to rural cooperative economic organizations, but also had to pay various unreasonable township and county fees, amounting to about 25 burdens. Rough calculations show that unreasonable apportionments throughout Shanxi in 1989 amounted to 270 million yuan, or 13 yuan per person.

2. Excess consumption and careless spending: Nonproductive investments have been out of proportion to productive ones in many rural areas in recent years, with over 70 percent of villages in some areas having wasted tens of thousands of yuan to build new stages, some having provided cars for daily use, and many townships having actually charged peasants "conference food allowance fees." All of this careless consumption-type spending has been shifted either directly or indirectly onto peasants.

3. Too many people receiving too many subsidies: Statistics show that Shanxi subsidies to village-level cadres alone have reached 130 million yuan a year, with as many as 170,000 cadres receiving subsidies, the average subsidy being 764 yuan per cadre, and their average burden being six yuan per peasant.

4. Rising prices that have increased burdens: For example, although a record wheat output of 1.347 billion kg was set in 1990 in Shanxi's major wheat-producing areas that ship to urban areas, this bumper harvest did not yield a high income for the following reasons: 1) The drop in grain prices caused a lower income despite the

increased output. In addition to the fact that agricultural taxes and contracted prices for ordered grain did not change, commodity grain base prices and beyond-plan negotiated grain prices, for which fixed prices were substituted for or converted from negotiated prices, dropped from 1.16 yuan per kg in 1989 to one yuan and 0.86 yuan, respectively. Calculated according to 1989's actual procurement volume, the weighted average procurement price per kg dropped from 0.926 yuan in 1989 to 0.806 in 1990, while gross income dropped from 430 million yuan in 1989 to 375 million yuan in 1990, a 14.6 percent decrease. 2) Means of production prices rose steadily. As to the rise in chemical fertilizer prices, the prices per 50 kg of urea, ammonium carbide, and phosphate fertilizer rose eight yuan, two yuan, and five yuan, for increases of 28.5 percent, 16.7 percent, and 55.6 percent, respectively, or an average increase of 30.6 percent. As to the increase in the cost of mechanized operations, the cost per mu for deep ploughing rose from three yuan in 1989 to eight yuan in 1990, and the cost per mu for machine harvesting rose from 10 yuan in 1989 to 16-18 yuan in 1990. Water and power charges also rose more than 50 percent.

### III. Steps That Should Be Taken To Lighten Peasant Burdens

1. We must conscientiously implement the "State Council Circular," and enforce legislation concerning peasant burdens. We should let the peasant masses know that they should accept all reasonable burdens in most proportions, but reject all unreasonable burdens. At the same time, we should make leaders at all levels in all trades and professions understand that except for legally stipulated burdens, all others, such as apportionments, charges, and solicited contributions under all sorts of pretexts, are illegal and subject to punishment by law.

2. We must investigate and study ways to distinguish circumstances and reform collection methods for peasant burdens. Successful experience from certain areas shows that collection methods for peasant burdens should vary according to the following items:

A. Overall township fees: Overall township fees should be used for township-level public facilities, and collection methods should vary by trade. At the beginning of each year, township governments should set items and fund limits based on peasant economic conditions and needs for expanding rural public facilities, and propose budgets to be examined and approved by township people's congresses and reported to county agricultural economy departments for the record. Townships should calculate overall township fees for villages, and work with rural collectives to collect the calculated one-time fees from households, which should be turned over to townships by villages for management and use at the township level.

B. Village collective deductions: These include mostly accumulation funds, public welfare funds, and administrative costs. In order to gradually develop the collective

economy, we should use the method of "basing deductions on income and expenditures on deductions," in which village party committees propose budgets at the beginning of each year based on per capita net income in the preceeding year, to be submitted to township governments for approval. These village collective deductions should then be collected from households at one time along with overall township fees, and may not be arbitrarily increased along the way.

The collection methods for these collective deductions can be divided into the following five levels: 1) a suitable percentage (generally about 10 percent) should be deducted from the pretax profits of village-run collective enterprises; 2) a suitable percentage (generally about one percent) should be deducted from the business turnover of peasant households engaged in specialties, such as industrial and commercial catering service trades; 3) a suitable amount of the three costs should be deducted from the business turnover of self-employed street peddlers; 4) a suitable amount of the three costs should be collected from villages based on their registered populations (the old, weak, sick and disabled can be exempted from this as appropriate); 5) deductions that are needed beyond these four categories can be shared according to the actual number of mu cultivated or shared equally among grain and cash crops.

3. We must set up a strict control system to conscientiously conduct special audits of peasant burdens. The Ministry of Agriculture and the Shanxi Government have made rural management and administrative departments responsible for doing a good job of supervising peasant burdens, and have called on the roughly one-fourth of towns throughout Shanxi that have no managers or administrators in charge of peasant burdens to set up such organs as quickly as possible. All provisions by all departments at all levels that involve increasing of peasant burdens or requirements that rural collectives or peasants pay money, provide goods, or do work, must be reported to agricultural economy departments above the county level for examination and approval, and must be approved by people's governments at the same level. Otherwise, peasants have the right to refuse to abide by them, and agricultural economy departments are empowered to intervene. Moreover, county-level agricultural economy departments must conduct at least one special audit a year of peasant burdens.

4. We must develop and expand our collective economy, to conscientiously lighten peasant burdens. A multitude of facts show that peasant burdens are closely linked to the strength of the collective economy. When the collective economy is strong, peasant burdens are light, and vice versa. Thus, the basic way to conscientiously lighten peasant burdens is to develop and expand our collective economy.

#### IV. Thoughts on Relationships That Must Be Handled Correctly To Better Supervise and Control Peasant Burdens

1. We must correctly handle the relationship between reasonable and unreasonable burdens. So-called reasonable burdens refer to the items, limits, and range of application stipulated in State Council Document No. 12 (1990). All others are unreasonable burdens. Reasonable burdens must be firmly enforced. This is necessary to strengthen our collective economy, enhance our social service capability, and expand our public facilities. Peasants have the right to reject all unreasonable burdens, and supervisory departments should investigate their origin, specific items, and amounts, and curb and report them.

2. We must correctly handle the relationship between direct and indirect burdens. So-called direct burdens do not include either the various taxes that peasants pay directly according to law, or that part of the burden that the rural collective economy and township-run enterprises pay on the peasants behalf. The stipulation in State Council Document No. 12 (1990) that peasant burdens should generally be kept within five percent of the preceeding year's per capita net income, refers mainly to these "direct burdens." So-called indirect burdens refer to the necessary burdens paid on behalf of the peasants out of collective economic or centralized management income in rural areas with solid collective economic might. The State Council document stipulates that "Increased income from collective management and taxes and profits paid by rural enterprises, must be used as much as possible to build rural public facilities. Qualified areas can decrease yearly the percentage of rural cadre wages that is collected from peasants." This is an effective way to conscientiously lighten peasant burdens and the direction in which we want to move. For instance, in Taiyuan's six rural counties (districts), the average 1989 peasant burden of 48.6 yuan was 7.37 percent of the preceeding year's per capita net income of 659 yuan. This included direct burdens of 19.3 yuan per capita, or 2.91 percent of the preceeding year's per capita net income, and indirect burdens of 29.3 yuan per capita, or 4.46 percent of the preceeding year's per capita net income. Taiyuan's peasant burdens are quite representative of economically developed areas. Moreover, their method of calculating direct and indirect burdens separately is also desirable. In handling the relationship between direct and indirect burdens, we certainly must not think that the lighter the direct burden on individual peasants the better, or even that all agricultural taxes should be paid collectively, nor must we think that the heavier the indirect collective burden the better. Instead, we should abide by the basic principle of "limited collection and reasonable use" for both direct and indirect burdens, to correctly handle the relationship between the state, the collective, and the individual.

3. We must correctly handle the relationship between the conscript labor that peasants must do, and the conversion of work into money or the substitution of money for labor. So-called conscript labor refers to production or public

facilities work that peasants must do without pay as stipulated by national policy or law, and is regarded as a social service that a citizen should accept. Thus, conscript labor cannot be included in peasant burdens by converting the work into money. The method used by some areas of converting the value of conscript labor that peasants should do into money to calculate peasant burdens is improper. As conscript labor is a duty that must be fulfilled, the substitution of money for labor should generally not be allowed. Although the substitution of money for labor can be approved in special circumstances, these "labor substitute funds" can be used only to hire other workers, are in the category of "exact compensation for work that should have been done" and thus, must not be included in peasant burdens.

4. We must correctly handle the peasant income relationship between "per capita net income" and "per capita income." While the State Council document stipulates that the percentage of peasant burdens to be collected is calculated with peasant "per capita net income" as the base, the overall statistics and graded collation statistical tables and reports of rural management and administrative departments, all the way from rural cooperative economic organizations up to the Ministry of Agriculture's management and administration headquarters, use only the concept of peasant "per capita income." This involves the issue of which is the correct approach to use in calculating the percentage of peasant burdens. "Per capita net income" is income based on sampling by state statistical departments. It includes the three parts of peasant annual net income from production operations, net income from nonproduction operations, and transferred income. In calculating the population index, it uses the "permanent household population," including those in some rural households, such as retirees, staff members and workers in state-owned enterprises, and public school teachers. The higher incomes of these people often makes peasant income higher. "Per capita income" refers to the actual income that peasants earn from labor in the field of production based on statistics from agricultural economy departments. It includes neither transferred income or the nonagricultural population living in rural areas and their income, and its population index is simply the population assigned to the rural areas. This is the first reason why "per capita income" is apparently lower than "per capita net income." Second, the "per capita net income" index is used mostly to understand the income sources and expenditure orientation of rural residents, and to study the production operations and consumer composition of peasant households. Whereas the concept of "per capita income" is used to understand rural production achievements and economic efficiency, and to study rural industrial structure operations, and reflects the profit relations among the state, collectives, and peasants, and the relationship between the collective and the individual in particular. Third, while calculations of "per capita net income" are based on spot samplings, and are obviously incomplete data, calculations of "per capita income" are based on thorough statistics from agricultural economy



departments, and are complete and accurate data. Thus, I would like to either note that the percentage of peasant burdens to be collected should be based on "per capita income," or to ask the concerned higher authorities to restudy and replan, to put peasant burden management on a more scientific basis.

### **Jiangxi Agricultural S & T Achievements**

*91010014 Nanchang JIANGXI RIBAO in Chinese  
21 Jan 91 pp 1-4*

[Article "Review of One Year's Work in the Use of Science and Technology to Invigorate Agriculture Throughout the Province"]

[Excerpt] [Passage omitted] **A Clutch of Dazzling Figures**

- Extension of hybrid rice to 16.829 million mu, more than double the 1989 area, producing an average paddy yield of 407 kilograms per mu, and a maximum yield of 600 kilograms per mu.
- Spreading of blended fertilizer on 17 million mu producing extraordinarily marked increased yields.
- Complete extension of high yield cultivation methods to 1 million mu of cotton fields, producing high yields in a year of serious disasters, the increase in ginned cotton output exceeding 100,000 dan.
- Complete prevention and control of crop diseases and insect pests to bring disease and insect pests under effective control on 120 million mu (including double cropping).
- Extension of artificial insemination to 12,000 villages in 40 counties throughout the province, increasing the hog removal from inventory rate 93.2 percent.

A project for the raising of 47.5 million geese and ducks throughout the province, a number approaching one-third of all fowl in the province.

### **The "1296 Project"**

The grim situation in agriculture during the middle of the 1980's posed serious challenges. After producing a brilliant record of consecutive year output growth, grain production, which has a bearing on the national economy and the people's livelihood, retreated from its peak to plunge into a maelstrom of uncertainty.

Where did the way out for agriculture lie?

After studying the situation and examining historical cycles, it was found that during the period immediately following liberation, grain output for all Jiangxi Province had been only 3.81 billion kilograms. Forty years later in 1989, output quadrupled to 15.81 billion kilograms.

History removed the scales from people's eyes. The invigoration of agriculture depended ultimately on reliance on science to solve problems.

The provincial CPC committee and the provincial government seized the opportunity and, after numerous validations, an overall plan for the invigoration of agriculture through science and technology appeared. The "1296 project" blueprint was placed before the people of the whole province.

This project called for the extension to large areas throughout the province of 12 different scientific and technical achievements made in agriculture. This included new breeds, varieties and strains for agriculture, animal husbandry, and the fishing industry, and new high yield cultivation techniques to produce large increases in yields. A body of optimum techniques were adopted using ecology development principles to establish nine large model development basis for geese and ducks, silkworm mulberry, improved livestock, and unpolluted fruits.

In order to maintain reserve strength for the development of agriculture, plans were drawn for a scientific and technical attack on six key areas including the breeding of new varieties and breeds, and the application of new techniques.

This umbrella project, which combined the extension of science and technology, demonstrations, and scientific research, sketched in broad outline the province's bright future for the development of agriculture. Like a powerful magnet, it attracted all battle lines and forces everywhere to join the great chorus of using science and technology on a huge scale to invigorate agriculture. Throughout the province from top to bottom, a fever rose rapidly in the farflung villages to extend farming techniques over large areas centering around the formulation of plans and deployments for the "1296 project."

### **Service Throughout the Invigoration of Agriculture Through Science and Technology**

The scientific and technical extension network, which soared on the spring wind of the invigoration of agriculture through science and technology, sank for a time into a situation of a "broken network and scattered personnel." In 1990, however, it pulled itself together again and rallied forces. A new attitude appeared. County science and technology promotion centers serving as a hub, townships and towns everywhere set up science and technology centers one after another, augmented the ranks of personnel possessing special skills in farming, forestry, aquatic products, plant protection, and animal husbandry to prepare experimental and demonstration bases. Every jurisdiction also examined and selected people from among the peasantry for an agricultural technical personnel corps. This effectively filled the void in grassroots level agricultural technology forces, insuring the complete spread of agricultural technology.

The 254,000 scientific and technical demonstration households that had been enlivened in the farflung rural villages, as well as their specialized research associations, were also stirred to action. Every jurisdiction provided vigorous support in the form of training, information

and materials, using the leading example of these "indigenous experts" to radiate very quickly the light and the heat of scientific and technical achievements.

The new service networks and the 2,662 plant hospitals that all trades and industries had taken part in forming brought the materials and technical guidance needed to invigorate agriculture to the millions of peasant households, supplying more than 3.6 million tons of chemical fertilizer and agricultural pesticides alone. They also set up liaison points and sent out work teams to project their service antennae into remote mountain regions.

This extraordinary network structure constituted a huge service system for the spread of agricultural techniques throughout the province that covered more than 80 percent of the province.

Thanks to this pervasive system, the technical achievements in agriculture covered by the "1296 project" spread over a wide area throughout the province. In recent years, the pace has slowed in the spread throughout the province of early hybrid rice, which was greatly responsible for the steady increase in grain yields. As of 1989, only 3.763 million mu were being grown in the province, but during 1990, the area was increased to 6.534 million mu for an increase from 16 to 28 percent in the total area of the province growing early hybrid rice. In some counties such as Yihuang County, the area was 80 percent.

Tobacco production, which the province had vigorously developed, saw the introduction during 1990 of fine varieties and standardized cultivation for all 352,000 mu of tobacco fields. Both new and old cotton growing areas produced a bumper crop. Flue-cured tobacco production alone amounted to 366,000 dan, three times the output for 1989. Tobacco quality also improved greatly, more than 86 percent of tobacco being of medium or high grade. This brought direct earnings of 80 million yuan to tobacco growing peasants.

Incomplete statistics show the spread of new techniques for an area totaling 59.254 million mu in the province, the new increase in output value reaching 217.48 million yuan.

#### Group Contacting

During the science and technology promotion campaign of the past year, a new form of contacting—group contacting—began to bud. It extended from government departments to grassroots units, using contracts to get organized. "Government served as a backer, technology served as a main support, and material and financial resources served as backstopping" producing the aggregate advantages of a large legion and many different branches of service.

Xinyu City organized a powerful group headed by the mayor that included 32 high and middle level agronomists and officers in charge of various units, to do "all points" contracting for cotton, grain, oil-bearing crops, and hogs in Shuixi, a large town within the city limits.

They promoted the use of fine varieties and breeds, the growing of cotton seedlings for transplanting, and quick hog raising as several examples of "10 major techniques." Within only half a year's time, they transformed 10,000 mu of land into 1 ton per mu fields; they increased the growing of early hybrid rice 25 fold, and all late rice was of the superior quality variety. In 1990, grain output increased by an average 8.4 percent over the previous three years and output of both cotton and oil-bearing crops exceeded the all-time high in a tremendous change for Shuixi Town.

Today, group contracting has spread everywhere. There are more than 400 groups in the province containing more than 16,000 people. The area contracted is now more than 6.73 million mu producing an output value of more than 65 million yuan. Not only are there contracting groups that encompass government, techniques, and materials, but groups encompassing enterprises, techniques, materials, farming, science, and education have also appeared. The sugar cane production contracting group that the Taihe County Sugar Refinery formed with the township government in the producing area, and the flue-cured tobacco contracting group that Xiapang County formed with Jiangxi Agricultural University both promoted the huge development of production. In 1990, Xiapang County's flue-cured tobacco output reached an all-time high, flue-cured tobacco output reaching 57,400 dan [passage omitted].

#### Shanxi Grain Output, Agricultural Investment

JTP401000 Beijing JINXI CANKAO BIAO in Chinese  
11 Feb 91 p 1

[Summary] In 1990 gross output of grain in Shanxi Province reached 9.69 billion kilograms, and the grain area exceeded 49 million mu. In 1990 agricultural investment was 156 million yuan, in 1991 investment will increase 100 million yuan.

#### Xinjiang Applies Science, Technology to Agriculture

CH 1403055-91 (Xinjiang RIBAO in Chinese)  
27 Feb 91 p 1

[By reporter Yan Ming (0917-2494)]

[Text] Last year, this region explicitly put forward the strategic task of invigorating agriculture by applying scientific and technological achievements and providing better guidance for the spread of scientific and technological achievements in agricultural work. This has promoted the pace of transferring agricultural technology into the agricultural productive force and made prominent contributions to promoting a bumper harvest in agricultural production last year.

To promote the application of science and technology in agricultural production, the autonomous region seriously implemented the policy of applying science and technology. Some 10,000 technological cadres and technicians were sent deep into agricultural and pastoral

areas to promote the application of science and technology there. Various departments of the autonomous region related to agriculture and animal husbandry dispatched more than 30 percent of their staff members and workers to agricultural and pastoral areas to provide various kinds of technical services, sign contracts with peasants and herdsmen, and offer advice. In the meantime, the autonomous region increased support to the work of applying science and technology in agricultural production through various channels at different levels. The regional financial department provided some 7 million yuan for promoting agricultural technology. Financial departments in various localities also provided 2.32 million yuan for the same purpose. In addition, various banks provided loans with a total amount of 71.74 million yuan for promoting the application of science and technology in agricultural production. In addition, supply and marketing departments provided 197,000 metric tons of chemical fertilizer, 943 metric tons of insecticide, and 8,214 metric tons of plastic sheets to insure the success of scientific farming.

Through training in agricultural technology, cadres at the grassroots level, peasants, and herdsmen have heightened their consciousness of science and technology. According to a statistical report, 2,571 classes were held throughout the autonomous region with a total attendance of 804,400 people. Some 544,800 copies of scientific and technological materials were printed and distributed to peasants and herdsmen.

Centering on the "harvest program," scientific and technological personnel signed various kinds of contracts with peasants and herdsmen and promoted the application of technology with the main objectives of increasing the output of grain, cotton, and sugar and raising more livestock on large pieces of land. The whole autonomous region implemented 24 "harvest program" projects at the state, regional and prefectural levels with a total acreage of 18,897 million mu, accounting for 55.7 percent of the total planned farming area in the autonomous region. Those projects achieved significant results in boosting output with a total value of 725 million yuan.

Because of an increase in the scientific and technological level and an increase in agricultural investment, production conditions were improved. The unit yield of main crops including grain, cotton, sugar, and oil-bearing crops rose by a great margin. According to data from the regional statistical bureau, the region's average per-mu yield of grain may have reached 245 kg last year. The average per-mu yield of cotton was 69.2 kg. The average per-mu yield of edible oil and sugar beets was 98.4 kg

and 2,211.8 kg respectively, increasing by 7.8 percent, 28.1 percent, 18.6 percent, and 33.1 percent respectively as compared with yields of the previous year.

### Scientists Develop Improved Oil Bearing Crops

OH 140318291 Beijing XINHUA in English  
1516 GMT 14 Mar 91

[Text] Beijing, March 14 (XINHUA) —About 100 high-yielding improved varieties of soybeans and rape were bred during the Seventh Five-Year Plan period (1986-1990).

Statistics show that during the period 58 improved varieties of soybean were cultivated and spread in an area totalling about 1.79 million ha, which increased the soybean output by 1.11 million tons.

The per-unit yield of 18 high-yield improved varieties of soybean is 10 percent more than that of other varieties.

Chinese scientists have developed 29 improved varieties of rape with low amounts of erucic acid and other harmful materials. The improved varieties have been grown on about 1.5 million ha of farmland.

Scientists say China's rape breeding techniques are up to the advanced world level.

The central government has allocated five million yuan for the development of improved soybean and rape seeds during the past five years.

### Fish Production Exceeds Annual State Target

OH 1503102491 Beijing XINHUA in English  
0857 GMT 15 Mar 91

[Text] Beijing, March 15 (XINHUA) —China is now the world's third largest producer of aquatic products with an annual output of over 12.18 million tons in 1990.

An official from the Ministry of Agriculture told XINHUA today that the country's 1990 fish output exceeded the annual state target by 30 percent and was valued at over 12 billion yuan.

The increased output helped to raise the average per capita fish consumption in China to 10.6 kilograms, according to the official.

The official said that in an effort to facilitate the development of its ocean fisheries industry, China has established 23 overseas joint ventures. In addition, the fleet of 120 vessels dispatched annually on deep-sea fishing expeditions have recorded catches in excess of 300,000 tons during the last five-year period.



### Critique of CPC Policy on Religion

910 AMO234 Taipei CHUNGKUO TAI-CHI YEN CHH  
[MAINLAND CHINA STUDIES] in Chinese No. 6  
Dec. 90 pp. 62-74

[Article by Wang Hsueh-wen (3076 1331 2429) "CPC's Open Policy on Religion and Control"]

[Excerpt] [passage omitted] C. Mao Zedong on Religion. Compared to Marx, Lenin, and others, Mao Zedong had much less to say about religion in his works. Mao Zedong's views on religion can be summed up as follows:

1. Religious authority is a thick rope binding the Chinese people. Mao Zedong wrote in the *Study Report on the Hunan Peasant Movement*: "The four authorities—political authority, clan authority, religious authority, and authority of the husband—represent all feudal and patriarchal ideas and institutions and constitute four thick ropes binding the Chinese people, particularly peasants. The political authority of the landlord is the backbone of all authority. Once the political authority of the landlord is broken, clan authority, religious authority, and the authority of the husband will all be undermined." He emphasized: "Today we should lead the peasants in an all-out political struggle to totally overthrow the political power of landlords. Then we will begin an economic struggle to fundamentally resolve the land issue of poor peasants and other economic matters. As for the destruction of clan authority, superstition, and improper relations between men and women, that will come about naturally after the triumph of the political and economic struggles."<sup>1</sup>

Clearly, Mao Zedong was then calling for the overthrow of the political regime of landlords first, to be followed by that of religious authority. And when he talked about doing away with superstition, he was referring mainly to Buddhism.

2. "Communists may set up a united front with religious followers," Mao wrote in *On New Democracy*: "Communists may form a political anti-imperialist and anti-feudal united front with certain idealists and even religious followers. But under no circumstances are they to approve of their idealism and religious beliefs."<sup>2</sup> On how to correctly handle the contradictions among the people, Mao said: "We cannot annihilate religion through administrative fiat or force people not to practice a religion, to abandon idealism, or to believe Marxism. All ideological problems and all disputes among the people must be resolved through democratic methods, through discussion and criticism, and through persuasion and education, but not through coercion."<sup>3</sup>

We can thus see that despite his embrace of struggle throughout, Mao Zedong also used the united front consistently. But this was only a difference in means. The ends remained the same.

3. "The religious policy of the so-called coalition government," Mao wrote in *The Coalition Government*: "In accordance with the principle of religious freedom, liberated areas of China allow the existence of all religions

and all sects. Provided the followers of a religion, whether it be Protestantism, Catholicism, Islam, Buddhism or some other religion, abide by the laws of the people's government, they shall be protected by the people's government. People have the freedom to practice or not to practice a religion. They shall not be coerced or discriminated against."<sup>4</sup>

There can be no doubt that this argument too was part of Mao Zedong's united front with various religions.

Facts prove that Mao was anti-religion. What he said above had to do with means and procedures only, most notably the united front. This is because at the time Mao believed that the top priority was to lead the masses to wage a political struggle, so there was no time for religious struggle.

It is obvious that most communists believe that communism is "a communist religion" and consider Marxist-Leninist works their "bible." But the fact is that there is a fundamental difference between communism and ordinary religions. The latter preach harmony and universality. Communism, on the other hand, is struggle-oriented and exclusivist. In nature and spirit, communism and other religions are diametrically opposed to each other.

### III. The CPC's Regulations Pertaining to Its Open Policy on Religion

Despite its adoption of an open policy on religion in recent years, the CPC still has the following regulations and strategies regarding religion:

A. Existing Regulations. After the CPC announced the restoration of "freedom of religion" in 1979, religious activities have multiplied across the mainland, contrary to the original intent of the Chinese Communists' open policy on religion. As a matter of fact, many religious problems have arisen. Moreover, because there is no unified understanding of the party's religious policy by the communist cadres across the nation, there is no single approach toward religious issues. Some cadres try to suppress religious followers, while others refuse to have anything more to do with religious matters, resulting in confusion. To unify the understanding and approach of cadres at all levels, the CPC Central Committee issued Circular 19 on 31 March 1982, titled "Basic Position and Policy on Religion During the Socialist Period in China."<sup>5</sup> The circular contains 12 provisions and reviews the party's historical experience, both positive and negative, on the field of religion. It also outlines the party's basic position and policies on religion. They are summarized as follows:

Item 1: In the end, "religion must wither away" in the course of human history, but only when all objective conditions are in place after the long development of socialism and communism. Therefore, all comrades in the party must understand fully and clearly the long-term nature of the religious issue under socialism. In other words, although the CPC is opposed to religion, it is pro-

going to destroy religion in one fell swoop through administrative orders or coercion.

Item 2: "Party committees at all levels shall adopt what Lenin described as 'particularly cautious,' 'very rigorous,' and 'well thought-out' attitudes toward religion. It is wrong to exaggerate the seriousness and complexity of an issue or to panic. But it is also wrong to overlook the existence of a real problem and its complexity, taking it lightly or letting it go unresolved." That is to say, the religious issue on the mainland is a highly complex one. However, the attitudes of Communist cadres are either to the left or to the right, which explains why the current policy has not been properly enforced.

Item 3: "Since 1957, we have erred by being increasingly 'leftist' in our religious work, particularly since the mid-1960's. During the Cultural Revolution, we went so far as to abolish the party's religious work altogether." "To implement the party's religious party correctly and comprehensively, we should concentrate on opposing the present erroneous leftist tendency, while also being careful to prevent and overcome any wrong tendency toward *laissez faire*." Clearly, this is a frank admission that the CPC's policy of violently suppressing religion has backfired. Henceforth, a new approach must be taken to make religion "wither away" gradually.

Item 4: "Under no circumstances shall religion be allowed to interfere in government administration, the administration of justice, school education, or social public education... Under no circumstances shall the religious leadership be allowed to oppose the party and the socialist system or be allowed to destroy national unification and unity among the various nationalities." "In short, unite all religious and nonreligious masses and concentrate their willpower and strength on the common objective of establishing a modern socialist power... Any speech and action that deviates from this basic position is wrong and shall be firmly resisted and opposed by the party and the people." According to Cardinal Ke Ni Xi [2688 1441 1585] of Austria, the Soviet Union recognizes freedom of religion only in theory, in fact, religious life is restricted and there is no equality between religious followers and those who practice no religion. The former are even discriminated against.<sup>18</sup> Like its Soviet counterpart, the religious policy of the CPC still restricts, resists, and opposes religion.

Item 5: "An important part of the party's religious work as well as an extremely critical precondition for full implementation of the party's religious policy is "winning over, uniting, and educating people in the religious community, particularly professional religious workers. In its world outlook, Marxism conflicts with any theism. In terms of political action, however, Marxists and patriotic religious followers are entirely capable of and must form a united front to fight for socialist modernization side by side." The truth is that the so-called "winning over, uniting, and educating" policy is the same "winning over, uniting, and educating" policy it adopts toward intellectuals. People are brought into the

so-called "united front" only to be "used and denounced." Thus, whether we are talking about viewpoint or standpoint, the CPC still considers intellectuals and religious figures "class enemies." On the one hand, the party rejects the position and beliefs of religious followers from the class standpoint. On the other hand, it repudiates their knowledge and religious teaching from the standpoint of pragmatism.

Item 6: "All sites for religious activities shall be managed by religious organizations and religious professional personnel under the administrative leadership of government departments in charge of religious affairs." It also prohibits meetings at home, preaching and missionary work outside the church, the construction of churches and temples, and the publication of pamphlets and books." No doubt so-called "freedom of religion" is an undeliverable dead letter.

Item 7: There are a total of eight "patriotic religious organizations" on the mainland, namely the Chinese Buddhist Association, Chinese Taoist Association, Chinese Islamic Association, Chinese Catholic Patriotic Society, Chinese Catholic Committee, Chinese Catholic Congregation, Chinese Christian Three-Self Patriotic Movement Committee, and the Chinese Christian Association. It is also stipulated that "all patriotic religious organizations shall accept the leadership of the party and government." The so-called "patriotic religious organizations" are religious organizations controlled by the CPC, which explains why this article also makes it the basic duty of these organizations to help the CPC carry out its religious policy.

Item 8: "Not only shall we continue to win over, unite, and educate everybody in the religious community today, but we should also help all religious organizations properly organize religious schools and colleges and train a new generation of professional religious personnel. The mission of religious schools and colleges is to nurture a corps of young religious professionals who are patriotic politically, embrace the party leadership and socialism, and have solid religious knowledge." In fact, religion is essentially perceptual, while politics is essentially rational. Religion is held together by faith, politics by law. Religion and politics, therefore, should be separate, yet the CPC is trying to politicize religious schools and colleges.

Item 9: "Members of the CPC shall not follow a religion or participate in religious activities. A member who continues to do so over a long period of time shall be urged to withdraw from the party. The problem now is enforcement of this rule among minority nationalities where practically the entire population observes a religion. Under these circumstances, we need to make the right moves depending on the circumstances and not take a simplistic approach." In reality, in a few minority nationalities just about everybody follows a particular religion, such as Islam or Lamaism. Here religion and nationalities are often interwoven, making it difficult for the CPC to coordinate its religious policy with its nationalities policy. Thus, "making the right moves" is easier said than done.

Item 10: "Counterrevolutionaries and other criminal elements in religious garb must be severely punished in accordance with the law... All people who read palms, tell fortunes, and practice geomancy professionally shall be educated and advised to make a living through labor and stop engaging in these deceitful activities. If they do not comply with this regulation, they shall be banned in accordance with the law." Actually, this is but a way of "putting labels on people," making mistrials, trumped-up charges, and miscarriage of justice a near certainty in the religious community on the mainland.

Item 11: "Our goal is to actively develop friendly international contacts in the field of religion, on the one hand, and firmly resist the infiltration of all hostile forces in foreign religion, on the other. Thus, we absolutely refuse to allow any foreign religious organizations (including groups controlled by such organizations) to come to China to preach in any form or to smuggle and distribute large quantities of religious materials." Clearly, this regulation is intended to prevent all international intercourse with the religious community on the mainland.

Item 12: "Under socialism, the only way to properly solve the religious issue is to gradually eliminate the social and ideological roots on which religion depends for its existence through the gradual development of the socialist economy, culture, and science and technology, and through the gradual development of the socialist material civilization and spiritual civilization, all within the framework of freedom of religion. This is a massive undertaking, certainly not something that can be accomplished within a short time, not even in one, two, or three generations. In other words, it can be accomplished only over a long period of time and through the joint effort of several generations, including the religious and nonreligious masses." Clearly the CPC both propagates atheism and criticizes theism in an attempt to "eliminate the social and ideological roots on which religion depends for its existence." Yet it is not confident about this, so it believes it will take a struggle of several generations. As to whether several generations will struggle side by side over "atheism" and "theism," that remains to be seen, but the possibility is minuscule.

From Circular 19 we can see that the CPC advocates atheism throughout and that its overall policy toward religion is to gradually weaken it and reduce religious bases in order to achieve the goal of abolishing religion.

*B. Working Internally and Externally:* The CPC's open policy toward religion has two prongs: the united front at home and the united front abroad.

1. Set up a united front and accelerate the four modernizations. The CPC has emphasized from an early point that in revolution and construction the proletarian party should form a "patriotic united front" with all religious followers who can be united. The formation of such a united front is entirely consistent with the interests of the proletariat. It is clear to Marxist-Leninist parties that religious followers are a social force. Most of them are working people. Unite them and they will play a most

vital role in "revolution" and "construction," reinforcing the forces of "revolution" and "construction."<sup>17</sup>

Now that the Cultural Revolution is over and the CPC is engaged in the four modernizations, it is necessary to put religion to work on behalf of the united front and exploit the huge numbers of religious followers as well as nonreligious followers in order to beef up its economic muscle.

2. Establish an overseas united front and win support. On 25 June 1980, a UPI reporter despatched a report from Hong Kong on the development of Protestantism on the mainland. The report described dramatic developments in the work of Christian missionaries in China in recent years, so far 21 churches have reopened. Be that as it may, there is still a lot of tension. Christians rarely discuss politics or history, confining themselves instead to sin, repentance, and resurrection. The report also says that, although missionaries are now allowed to visit China, they are not free to openly urge people to repent and accept Christ. In short, behind the CPC's tolerance of the revival of Christianity is a desire to curry favor with Western nations so that the latter would help its four modernizations. It does not want the West to turn into an opposition force because of religious oppression at home.<sup>18</sup>

The Reverend Wu Enpu [0702 1869 3302] offered similar views in "The Gospel Door on Mainland China Revisited" published in HUIHAN [SHOUT] No. 24. He said, "The church in Mainland China today can be divided into two major branches. One is the official church, led by the Three-Self Reform Committee on the orders of the CPC. The other is the underground church. Isolated and cut off from help, it searches for the Lord and relies on Him in accordance with the word in the Bible and the worshippers' spiritual needs." He also said that the sudden 180-degree change in the CPC's attitude toward Christianity was a function of its united front policy. The Communists want to curry favor with the United States and people in Western democracies. Provided it loosens slightly its grip on Christianity and flashes a few smiles at Christians, it would immediately make a good impression on Westerners. Thus he emphasized, "Grasp this opportunity today to take the Gospel to China."<sup>19</sup>

So we can see that China's use of religion to create a united front externally is fraught with contradictions and fear. Hence the constant shifts to the right or to the left accompanied by varying degrees of strictness. This is no effective way to win the foreign assistance it needs.

#### IV. How the CPC Controls Religion

The CPC's so-called open policy on religion is not only politically motivated and geared toward the united front, but it also continues to exert a good deal of control on religion. These are the specific measures:

**A. Regulations Restricting Religion.** "Six external provisions" and "eight internal provisions" were drawn up by the CPC in 1983 to regulate religion. They are as follows:

1. Six external regulations:



- a) Abide by the principle of "maintaining independence and keeping the initiative in one's own hands" (that is "self-government"). Reject outside control in any form.
- b) Remain steadfast to the principle of "self-preaching" and firmly refuse to allow foreign missionaries to come to China to preach.
- c) Be vigilant against imperialism's cultural infiltration. Publicity materials political in nature must be strictly controlled.
- d) Abide by the principle of "self-sufficiency." Firmly reject economic aid from foreign churches.
- e) Firmly refuse to deal with international organizations controlled by Soviet revisionists. Delegates who attend international religious conferences in Taiwan shall be handled on a case-by-case basis to avoid creating a "two Chinas" situation.
- f) Maintain sharp vigilance against sabotage by imperialist reactionaries who use religion to dispatch agents, win popular support, draw people to their side, and perpetrate cultural infiltration, and criticize and denounce them if necessary.<sup>20</sup>

## 2. Tight internal regulations

- a) Citizens 18 and above shall have freedom of religion. However, they also have the freedom to not practice religion or to oppose religion.
- b) Children and juveniles under 18 shall not be allowed to practice religion.
- c) A religion shall abide by all government laws, regulations, and policies. It shall not defraud people of money and properties and endanger their health.
- d) Collective properties shall not be used to run a church.
- e) Religious privileges already abolished shall not be restored.
- f) CPC and CYL [Communist Youth League] members shall not practice any religion. CPC and CYL cadres shall not participate in religious activities. Violators shall be strictly dealt with.
- g) "Unite, educate, and transform" people in the religious community. Train a host of new religious workers to meet the needs of religious work in the future.
- h) Mobilize the masses to hit hard at class enemies who carry out counterrevolutionary activities in the garb of religion in order to raise the consciousness of the followers and make them understand the nature of religion and consolidate the proletarian dictatorship.<sup>21</sup>

Clearly, all CPC regulations on religion in fact aim at limiting the practice of religion and basically have nothing to do with freedom of religion.

**B. Suppress the Family Church.** According to a bulletin issued by the Overseas Christian Mission (formerly Interior Church) in April 1984, the family church on the mainland

like the early Christian Church (I Corinthians, Chapter 16, Verse 19), started out as Christians meeting secretly at home. Even in the darkest and most chaotic days of the Cultural Revolution, such meetings continued, particularly in the countryside, where gatherings numbered in the hundreds and thousands, with more and more believers each day. Only after the "Three-Self Church" was permitted by the CPC to open its first church in 1979 did family churches run into resistance. In cities across China, local public security personnel and neighborhood committees as well as the "Three-Self Church" also opposed unregistered religious activities. Since August and September 1983, many family churches have been closed or converted into even smaller fellowships. They have no fixed meeting schedule or venue. Most of the participants are young people. Since the meetings take place in difficult and perilous circumstances, most bear witness on a one-on-one basis.<sup>22</sup>

Clearly, the CPC has once again cracked down on the family church on the mainland. Still, reports say that apart from larger gatherings, small family meetings in the vast countryside have not been completely affected because they are harder to control.

**C. Restrictions on Missionary Work.** Danny Kelly, an American who spent 21 years in a reform-through-labor camp in China, had this to say about what was really happening to China's open policy on religion today. To fool foreigners, there are churches in every major city along with nominal Chinese priests. When foreign visitors are not around, however, the "church" is always locked up, nobody meets there or holds services there. The CPC even has a "Beijing Seminary," which is but an empty shell as it has no students. What the CPC has done is to put some "clergymen" there. Whenever a foreigner visits the place, it is opened to the public as a sign of "freedom of religion." In their hearts of hearts, the Chinese Communists are "atheists" through and through. After it established diplomatic ties to the United States, the CPC was compelled to modify its strategy. It no longer prohibits private Christian gatherings, but they must propagandize and support the CPC.<sup>23</sup>

Clearly, the so-called "open policy" of the CPC actually seeks to confine Christianity to the physical premises of the church, restricting all missionary activities without exception in hopes that religion will gradually decline and wither away on its own.

**D. Prohibition on Prayers.** Not only does the CPC impose restrictions on the church, but it also prohibits religious believers from praying. Reportedly some CPC cadres told a woman who had been teaching for several years that "teachers should not preach the Gospel." However, she insisted on saying grace before a meal. The cadres got very angry and called it superstition, ordering her not to say grace before a meal. But she could not but thank Jesus for giving her food and drink. So she said grace at the following meal, whereupon the cadres had her arrested there and then and sentenced her to a three-year term on counterrevolutionary charges.<sup>24</sup>

We can thus see that under religious control by the CPC the situation of religious believers is not optimistic.

However, reports say that many courageous believers on the mainland have already calmly resigned themselves to death even as they are still living. They deserve to be called living martyrs.

#### 5. The True State of Religion in Mainland China Today

Apart from the eight "patriotic religious organizations," religious groups in mainland China consist of some other religious social organizations and local organizations.

The situation regarding the Catholic Church, the Protestant Church, and so-called "Chinese Atheist Society" is summarized as follows:

**A. The Bible in Short Supply.** In 1966 the Red Guards devoted themselves to burning all copies of the Bible, hymn books, and other Christian literature they could lay their hands on. Consequently many Christian gatherings in China today have to make do with one Bible. By and large this is the situation:

1. Christians all over the mainland say the Bible is hard to come by. The only place where you can buy a copy is a church under the Three-Self Church. (Ordinary bookstores do not carry it.) Moreover, it is confined to followers of the Three-Self Patriotic Movement.

2. Some family churches inform their members beforehand which passages from the Bible will be studied at the next meeting so that members can copy them by hand and bring them with them to the meeting. The good thing about this practice is that when the police turns up to make trouble, no Bible would be lost. At worst they lose a few pages of hand-written passages from the Bible.

3. In the first half of 1983, a devout Three-Self Church minister led young people in studying Genesis, but was ordered by officials of his church to stop after just two months. Their reason was that Genesis was opposed to the Marxist tenet that "labor, not God, created the world." The past emphasis on creationism was equivalent to opposition to evolutionism.<sup>25</sup>

Clearly, the Bible has been restricted and distorted by the CPC in both quality and quantity.

**B. The State of Catholicism in Brief.** Reports say that there were 3 million Catholics, 44 bishops, 1,200 priests, and 2,500 nuns on the mainland in 1985. More than 600 churches and more than 1,000 chapels were opened in a four-year period. In addition there are nine seminaries:

1. Beijing Seminary.
2. Shanghai Philosophy and Theology Institute
3. Shenyang Catholic Seminary.
4. Chinese Catholic Seminary.
5. Wuchang Philosophy and Theology Institute
6. Sichuan Philosophy and Theology Institute
7. Hebei Shijiazhuang Philosophy and Theology Institute
8. Huhhot Philosophy and Theology Institute

9. Xian Philosophy and Theology Institute.<sup>26</sup>

**C. The State of Protestantism in Brief.** There are 4 million missionaries on the mainland today with a total of 11 seminaries, both newly built and reconstructed, enrolling over 600 students.<sup>27</sup>

As the Protestant Church gradually matured on the mainland over the past decade, the radio has become the lone preacher for the isolated believer. In some cases, the Christians have no local church and must nurture their faith alone. In others, nobody among the believers can serve as clergyman. In some localities a large group of people gather together to hear spiritual news from afar.

**D. The Characteristics of China's Atheist Society.** There is a "Chinese Atheist Society" on the mainland with the following characteristics:

The Chinese Atheist Society held its fourth annual convention in Chengdu between 6 and 12 Sept 1985 where it declared that atheism would prevail over theism. Yet, the launching of atheist propaganda must absolutely not be interpreted as a declaration of war on religion. Instead, the focus should be on educating the vast numbers of people who practice no religion, particularly young people. This is a basic policy in atheist propaganda. Clearly this society aims not only to eliminate theism, but also to prevent the birth and development of theism.<sup>28</sup>

**E. The Situation of Religious Believers.** During the Cultural Revolution, religious believers were commonly persecuted by the CPC. After the Cultural Revolution, Communist persecution did not come to a complete end; both clergymen and followers remain in a perilous and tragic situation. For instance:

1. The Communists arrested a priest and whipped and tortured him, demanding that he renounced his faith. He refused. They brought in a coffin and made him lie down in it, again demanding that he renounce Jesus Christ. His only reply: "I absolutely will not renounce my Lord." The Chinese cadres were so enraged that they had the coffin nailed. He was buried alive.

2. Some young Christians were tied up by the Chinese Communists, made to kneel for three days and three nights, and were then thrown into jail. They fasted for nine days in prison and became so weak that they were finally set free. They said, "Satan went all-out to force the Christians to give up their faith, but the Lord enabled them to triumph."<sup>29</sup>

We can thus see that religion on the mainland today is generally in the same situation it was during the Cultural Revolution, particularly regarding the shortage of Bibles and the situation of the believers, fully proving that the CPC remains relentless in resisting and persecuting religion. [passage omitted]

#### Footnotes

[footnotes 1-10 omitted]

11. *Selected Works of Mao Zedong* (one-volume edition). Beijing, Renmin Chubanshe, second printing, December 1968, pp. 31-33.

12. *Ibid.*, p. 667.

13. *Selected Works of Mao Zedong*, Volume 5. Beijing, Renmin Chubanshe, first edition, April 1977, p. 368.

14. *Selected Works of Mao Zedong*, (one-volume edition). Beijing, Renmin Chubanshe, second printing, December 1968, p. 993.

15. *The CPC and Religion*, ed. by Wang Hsueh-wen [3076 1331 2429]. Center for International Studies, National Cheng-chi University, first edition, September 1986, Appendix I, pp. 307-328.

16. Hong Kong TA KUNG PAO, 21 March 1980

17. *Collected Papers: CPC on Religion (1959-1965)*, Hong Kong: Institute for Modern Chinese Studies, 1972, pp. 18-19

18. Commentary on current affairs in TAIPEI CHRISTIAN FORUM WEEKLY, "Further Open the Door of Gospel," 6 July 1980.

19. *Ibid.*

20. *Catholicism in Mainland China: A 40-Year Chronicle of Major Events (1945-1986)*, Luo Yu [5012 3342] and Wu Yan [0702 7159]. Fugen University Press, first printing, December 1986, pp. 252-253.

21. *Ibid.*, pp. 253-254.

22. Taipei CHRISTIAN FORUM WEEKLY, 29 April 1984.

23. "Danny Kelly on the Past, Present, and Future of the Gospel on the Mainland," by Huang Aichen [7806 1947 3791], Taipei CHRISTIAN FORUM WEEKLY, 22 April 1979.

24. *The State of the Church in Mainland China*, by Kaer Laolunsi [0595 1422 0525 0243 2448], translated by Fang Hsin-en [2455 2450 1869]. Taipei Olive Foundation, reprinted August 1987, p. 32.

25. *Ibid.*, pp. 53, 57, 114.

26. *Catholicism in Mainland China: A 40-Year Chronicle of Major Events (1945-1986)*, by Luo Yu and Wu Yan. Fugen University Press, first printing, December 1986, pp. 290, 389-391.

27. RENMIN RIBAO (overseas edition), 26 August 1987, p. 4.

28. Taipei CHRISTIAN FORUM WEEKLY, 16 August 1987, p. 4.

29. *Catholicism in Mainland China: A 40-Year Chronicle of Major Events (1945-1986)*, by Luo Yu and Wu Yan. Fugen University Press, first printing, December 1986, p. 310.

30. *The State of the Church in Mainland China*, by Kaer Laolunsi, translated by Fang Hsin-en. Taiwan Olive Foundation, second printing, August 1987, pp. 20, 21, 108.

### Minority Language Books Published

OH 2502180791 Beijing XINHUA in English  
1430 GMT 25 Feb 91

[Text] Beijing, February 25 (XINHUA)—China published 10 million minority languages books in 273 titles in 1990, PEOPLE'S DAILY reports today.

These books cover the culture and folk customs of China's ethnic minorities, as well as biographies of ethnic minority personages.

They were published in such languages as Mongolian, Tibetan, Uygur, Kazak, and Korean by the Nationalities Publishing House and other regional publishing houses, the paper reports.

According to the paper, 19 volumes of a series on Chinese ethnic minorities have been finished. More than 100 specialists and scholars on minority literary works are contributing to the effort. The series, which consists of 50 volumes, is a collection of most of the achievements made in ethnic minority research.

The published volumes include ancient Tibetan culture, ancient Tibetan literary, culture of the Dai nationality, and a biography of Kublai Khan.

The history of China's nationalities, which was written by Jiang Yingliang and others at Yunnan University, has already published. The book covers the origins and development of all of China's ethnic minority groups.

The paper says the Nationalities Publishing House will also publish some new books, including a comprehensive history of the Mongolian nationality, a series on the knowledge of nationalities, and a yearbook of the Chinese nation.

### Reform Encourages Advanced Education for Farmers

OH 2702091591 Beijing XINHUA in English  
0850 GMT 27 Feb 91

[Text] Jinan, February 27 (XINHUA)—China's economic reform drive has brought about great changes in farmers' cultural outlook, especially in the coastal areas which have benefited the most over the past decade.

Nowadays more and more farmers are obtaining technical or graduation certificates from colleges and polytechnics. They study courses on law, accounting, rural enterprise management, architecture and operation of machines as well as farming techniques—all at their own expense.

Ninghai town in Muping County, in east China's Shandong Province, now boasts more than 1,700 farmers who are college or polytechnic school graduates.



According to recent statistics, 90 percent of the town's farmers have mastered at least one special technique.

More than 1,100 peasants in Ninghai, which has a population of 40,000, have been awarded technical certificates by the labor administration departments at the various levels.

In the past two years the Ninghai town government has invested more than 20 million yuan (about four million U.S. dollars) to conduct systematic education and technical training among peasants.

In co-operation with Tianjin University, Ninghai founded a special training center in Muping County for young farmers who are graduates of colleges. These young farmers will play an important role in technical education in the rural areas after attending the center's courses.

The 65 villages around the town have set up their own economic and technical schools.

Chang Zonglin, who was a porter ten years ago, is now general manager of the Xinmu International Trading Corporation of Ninghai. He was given the professional title of senior economist after several years' study and practice, and was named one of the outstanding peasant entrepreneurs of the country.

Chang's corporation now has fixed capital of more than 80 million yuan (about 16 million U.S. dollars). Last year the corporation achieved an income of 150 million yuan and an export volume of 10 million U.S. dollars.

Chang often holds discussions with foreign businessmen and industrialists, and has signed five projects contracts in the forms of joint venture, co-operation and compensation trade.

He held that the emergence of large numbers of peasants with better cultural and technical education level is the fundamental factor for the healthy development of the industrial enterprises in the country's rural areas.

Not long ago, 320 leading members of township enterprises in Qingdao City, Shandong Province, were admitted to Qingdao University and the Qingdao University of Oceanology. They are members of the first class in rural enterprise management run by Qingdao City.

The new course is sponsored by county- and prefecture-level enterprises in Qingdao City. Professors and experts on economic theory and management have been invited to give lectures.

Ji Yujun, president of the Qingdao City Association of Township Entrepreneurs, said that the new changes in the development of the rural economy are encouraging rural people to learn more.

According to a survey, more than 100 electronic, textile, building material and light industrial products made by rural enterprises are nationally or even internationally advanced in quality and technology.

The investment in education and cultural development has been repaid with striking economic progress. Ninghai, for instance, achieved a total income of 1.01 billion yuan last year, the highest in Shandong Province. Now the town's 534 enterprises have 33,000 employees.

#### Universities To Recruit 620,000 Students

OW 0203103891 Beijing AINHU 4 in English  
0320 GMT 2 Mar 91

[Text] Beijing, March 2 (XINHUA)—Universities in China will recruit 620,000 students this year, slightly more than last year, according to today's overseas edition of the PEOPLE'S DAILY.

According to a report from a national meeting, universities nationwide recruited 609,000 students last year.

This year more than 630,000 students will graduate, the meeting was told.

### Historical View of Military-Civilian Relations

91CM0110A Beijing JINSHI LISHI [MILITARY HISTORY] in Chinese No 6, 25 Nov 90 pp 22-25

[Article by Chang Shengrong (1603 3932 2837): "A Preliminary Exploration of Military-Civilian Relations in Peasant Uprisings Throughout History"]

[Text] Wherever there are armies, the issue of relations between troops and the people exists. It is no different with peasant rebel armies. In a sense, some of the principles of the relationship between our army and the people share a common origin with the principles and policies related to peasant rebel armies. For this reason, research into relations between troops and civilians throughout the history of peasant rebel armies is of practical significance. In this article I shall present a few shallow opinions on this subject.

#### I. When "officials become tyrants, the people fight back" and "raise the standard of rebellion"

Troops and the people are the same thing. This is how rebel armies look in terms of their membership. Peasant rebel armies are composed of peasants who have been forced into desperation by the rulers. The troops come directly from the masses and they represent the self-arming of impoverished peasants. Looking back over several thousands of years of Chinese history, the members of every peasant rebel army have all been impoverished peasants from the lowest classes of society. Their economic position, class position, and ideological tendencies have all determined that they would have deep understanding and sympathy for the situation of peasants. Within the structure of this type of army, the troops and the people have been one and the same—members of the army, yet part of the masses. They have always handled troop-civilian relations in the simple, straightforward manner of the peasant classes. Qinshihuang, the first emperor of China's first feudal dynasty—the Qin dynasty—exploited the people ruthlessly in his projects to build the Fang Palace, the Great Wall, and huge tumuli. He mobilized huge amounts of labor, causing farm fields to be fallow and forcing the people to desert their homes. The second emperor of the Qin dynasty was even more cruel. He imposed crushing taxes and endless corvée labor, bringing class conflict to a fever pitch. Peasants grumbled angrily that "it has been a long hard spell under the Qin." It was under these conditions that the Chen Sheng and Wu Guang peasant rebellion broke out. The key members of the Chen Sheng-Wu Guang rebel army were recruited along with 900 other poor peasants in Yuyang. During the latter years of the eastern Han dynasty, eunuch officials usurped power, politics became corrupt, taxes were ruthlessly imposed, and powerful landlords engaged in a crazed pursuit of land. Huge numbers of peasants lost everything and fled. In every prefecture, county, and rice paddy, the bodies of the dead piled one on top of the other. It was under these circumstances that the Yellow Turban Revolt broke out. All the members of the rebel army were peasants fleeing from poverty. In the great peasant revolt lead by Li Zicheng during the late Ming dynasty, all the members of

the rebel army were either homeless vagabonds or discontented troops "with neither enough clothes to cover their backs nor hope of another meal." The class nature of rebel peasant armies throughout history has dictated that the goal of their revolts should be survival. They have had a deep understanding of the abuse suffered by common people at the hands of the feudal dynasties and their troops, and they have had a deep sympathy for the peasants. They always maintained their simple, straightforward behavior. Rebel armies have always opposed feudal rule and carried out revolutionary struggle, which is in striking contrast to the abuse and tyranny of the feudal ruling classes and their armies.

#### II. Most leaders of rebel armies have "pushed the plow" and were "born in grass huts."

**Rebel army leaders have been part of the masses and the poor people.** Most leaders of peasant rebel armies throughout history have been poor peasants with a certain amount of leadership and organizational ability. Chen Sheng and Wu Guang were among the peasants who had been conscripted to perform corvée labor in Yuyang. During the time of the usurper Wang Mang, the Red Eyebrow rebel army leader Fan Chong was a field hand "without enough clothes for his body or food for his stomach." This was also true of Wang Kuang and Wang Feng, leaders of the rebel army of the green forest. Wang Xiaobo and Li Shun, leaders of a rebel peasant army during the early Northern Song dynasty, were tenant tea farmers. Fang La, the leader of a rebel peasant army during the late northern Song dynasty, was born into a poor peasant family in Qingxi County, Muzhou Prefecture. After a lifetime of struggle, he was still unable to feed or clothe himself properly. Some leaders of peasant rebel armies were also leaders of popular religious sects, such as Han Shantong, the leader of a peasant rebellion in the late Yuan dynasty, as well as Liu Song, Liu Zhixie, and Song Douqing, leaders of the White Lotus Rebellion. All of these men were religious leaders, but in the final analysis they were peasants by origin. Some leaders of peasant rebellions were frustrated officials, such as Du Zundao, the military general who fought along side Han Shantong. Other leaders were frustrated literati, such as Huang Chao, who went to Changan to take part in the imperial examinations. Because he came from a family of salt merchants and lacked connections in the capital, he failed the examinations many times. Only then did he decide to take part in the rebellion. Regardless of whether these people were poor peasants, frustrated officials or literati, or religious leaders, they all lived in the lowest strata of society and had close social connections with the peasant masses. After they became leaders of the rebel armies, all the programs, policies, and plans that they formulated represented the interests of the peasant masses in one form or another. Some of their guiding philosophies regarding troop-civilian relations in their rebel armies reflected their personal experience, so they formulated many policies regarding troop-civilian relations which differed from those governing the armies of the feudal ruling classes. This is an important reason why the rebel armies were able to continually develop and expand.

III. In terms of their ideological foundations, rebellions have been composed of peasants who have taken up arms. They have been "of the people." The political positions of rebel armies have always expressed the will of the people, and reflected the political and economic demands of the peasants. Every peasant rebel army throughout history has had its own slogans and has needed to expound its political positions. These positions and slogans have reflected every aspect of the ideology and aspirations of the broad masses of poor peasants, such as the basic demand that "every tiller must have his land." The Chen Sheng-Wu Guang rebellion adopted the slogan "punish the lawless, castigate the Qin tyrant." This slogan had enormous appeal at that time. Zhang Jiao, leader of the Yellow Turban Rebellion, raised the slogan "the eternal heaven is dead, let the yellow heaven rise. The beginning of a new era has come, and the world will be at peace."<sup>1</sup> He used this clear political slogan to mobilize the masses. The Huang Chao Rebellion of the Tang dynasty adopted the slogan "Right all wrongs." The Wang Xiaobo-Li Shun rebellion of the northern Song dynasty trumpeted the phrase "the rich are too rich and the poor are too poor; today I'm going to level it out for you."<sup>2</sup> This phrase had great appeal during the Chunhua era of the reign of Songtaizong, when the tyranny of officials caused great discontent among the people. Using the phrase "level out poverty and riches" to attack class exploitation and oppression, as well as inequality among men, meant that the political ideology of peasant rebellions in China had developed to a new stage. Zhong Xiang and Yang Mo stated during a rebellion against the Southern Song dynasty that "any law that discriminates between the rich and poor is not a just law. The law that I enforce shall treat rich and poor equally, and shall level out poverty and riches."<sup>3</sup> They improved upon the slogan of "leveling out poverty and riches" by adding the idea of "treating rich and poor equally." By doing so, they linked economic demands to political demands, further refining the purpose of peasant rebel armies. From this point, the idea of "treating rich and poor equally, and leveling out poverty and riches" became one of the most important political slogans in struggles between peasant classes and feudal landlord classes, and it also became the political program of peasant rebel armies. Subsequently, the Red Turban Army of the late Yuan dynasty introduced the phrase, "break the rich and aid the poor"; the White Lotus Rebellion of the Qing dynasty introduced the phrase, "there will be no peace until all iniquity has been destroyed"; and Li Zicheng introduced the idea of "fair transactions" and "taking from the rich to give to the poor." This provided a new ideological foundation for the troop-civilian relations of rebel armies. It became the fundamental principle governing the way in which peasant rebel armies handled troop-civilian relations.

IV. In terms of discipline, rebel armies have always had tight discipline, stressing that there should be "no killing and no rape" and "not the slightest violation of discipline," thereby winning the hearts of the people. Peasant rebel armies throughout history have always placed great

importance on having their troops observe discipline vis-a-vis the masses. In the beginning, there was no such discipline, but the process of development advanced continually. For example, the Chimei Army, under the leadership of Fan Chong, had an oral agreement that anyone who killed would be killed, and anyone who injured would be injured. The tight discipline of rebel armies has always stood in sharp contrast to that of the official armies. The troops of Wang Mang killed, burned, and committed every known atrocity wherever they went. According to a popular ditty, it was "better to be set upon by the Chimei than the troops of Wang Mang!"<sup>4</sup> The Huang Chao rebel army had a clear injunction against burning, killing, and looting. The Li Shun rebel army cared about and defended the common people, and while on the march never offended them in the slightest way. The Yang Zi rebel army of the Ming dynasty announced it would not burn, kill, rob, or rape. Li Zicheng's rebel army formulated the discipline of "eliminating tyrants and helping the people," "not offending in the slightest way," and "not raping women, not killing innocent people, and not looting." His army prohibited generals from keeping any women other than their wives or children. He prohibited his subordinates from keeping for themselves any goods recovered during war. He prohibited his troops from entering the homes of the common people. The White Lotus rebel army of the Qing dynasty had prohibitions against killing, stealing, and rape. This shows that the rules of discipline adopted by peasant revolutionary armies in ancient China to govern contact between troops and the common people kept becoming more and more numerous and specific. At the same time, it was always the policy of the peasant rebel armies to treat feudal literati well, and the habit of showing respect for educated people was deeply ingrained in rebel armies, even to the point that captured landlords only had to make the pretense of education to be set free. When choosing its officials, the Wang Xiaobo-Li Shun rebel army carried out a policy of employing talented people and treating kind people leniently and making use of them. They dealt with the officers and men of the Song dynasty army on an individual basis, and, depending on the circumstances surrounding their surrender, they often made use of military officers who had come over from the other side. In order to gain as much support as possible, the Yang Mo rebel army adopted a policy of uniting with and defending intellectuals. Every time they laid siege to a city, they would shoot an arrow into the city with a message on it instructing intellectuals to hang the blue clothing worn by those who had passed the local examinations in their doorways. In this manner, the families and property of these people were protected.

V. The political motive of rebel armies has been to "attack and help the poor" and "open the warehouses and distribute the grain," seeking at all times to further the interests of the people. Attacking the rich and helping the poor have been the central theme of peasant rebellions throughout history. Wherever they have gone, they have killed greedy bureaucrats, eliminated cruel officials, set prisoners free, liberated slaves, opened up warehouses and distributed grain, aided the common people, and



delivered heavy blows against feudal rule. For this reason, the common people always greeted them with open arms. The Yellow Turban Rebellion, for example, was directed against the Eastern Han government and the entire landlord class. They occupied the seats of local government, burnt down the mansions of the officials, laid siege to the estates of the powerful, confiscated ill-gotten riches, and reclaimed the land that had been wrested away from them. This rebellion broke across the land with the speed and force of a thunderstorm and rallied the spirits of the oppressed masses. After the Huang Chao rebel army occupied Changan, it announced that "it is for the people that the Yellow King has raised an army. The rebel troops distributed money and clothing to the poor people, and dealt a severe blow to the nobility and bureaucrats. The Wang Xiaobo rebel army raised high the standard of 'leveling out poverty and riches.'" Where ever it went, it would round up the landlords and wealthy people and make them give an accounting of all their money, property, and grain. Except for what these people needed for their own survival, everything was confiscated and distributed among the poor people, which gained the army tremendous popular support. The Zhong Xiang rebel army severely criticized officialdom, referring to the institutions and laws which upheld feudal rule as "evil laws," thoroughly negating these laws. The "land distribution and tax relief" program of the Li Zicheng rebel army reflected the strong desire of peasants in the feudal society to farm individually, and it was very popular with the masses. The following ditty was sung widely at the time: "Kill the cattle! Prepare the wine! When the city falls, welcome the new king! When the new king arrives pay no taxes!" After the rebel army captured Beijing, Li Zicheng established the Dashun regime, and immediately freed all the people who had been taken prisoner by the imperial security forces, and vigorously suppressed the nobility and high-ranking officials of the Ming dynasty. He announced the abolition of taxes on common people, ordered officials and wealthy people to turn over the riches they had obtained by exploiting the people, and he determined how much food the officials had to give to support the military on the basis of their rank. All of these acts represented heavy blows to the landlord class in both political and economic terms, and they demonstrated very clearly the class nature of the efforts of rebel peasant armies to act on behalf of the people.

**VI. The attitude of the people toward rebel armies has always been very supportive.** Peasant rebellions throughout history have always won immediate support, quickly gaining the force of a prairie fire. The masses have always greeted righteous armies with open arms. Everyone, whether male, female, old, or young, has always been eager to join these armies, thus enabling them to expand from day to day. The Chen Sheng-Wu Guang rebellion received enthusiastic support from the masses everywhere they went, with the result that in two short months they were able to storm local governments virtually unopposed. Their armies had more than 1,000

battle chariots and hundreds of thousands of foot soldiers. Within a month after the Yellow Turban Rebellion broke out, its armies were armed to the teeth, their bloodcurdling battle cries shook the heavens, and none dared resist its advancing banner. Within 10 or 20 days after the Wang Xiaobo-Li Shun Rebellion broke out, its army had quickly swelled to nearly 100,000 men, such was the support of the masses. The rulers could not but exclaim in fright, "when someone rises in anger, he rolls up his sleeves and wipes out everything for a thousand li!" Landlords and bureaucrats "trembled in fear, without so much as a safe place to die." The White Lotus Rebellion of the late Qing dynasty received even more enthusiastic support. When its army arrived in Sichuan's Tiande, both young and old from more than 1 million families near and far had come to join the army. Wherever the rebel army went, there were people to help them find their way, provide lodging, switch horses, and resupply them with grain and gunpowder. Thus, on the march, this army was able to travel light and fast without transporting its own grain or baggage. They struck a heavy blow against the Qing dynasty rulers and struck fear in the hearts of the enemy army.

**VII. In terms of their historical impact, the memory of the great accomplishments of rebel armies shall live throughout history, and the feats of heroes are passed on and praised from generation to generation.** Every peasant rebellion throughout Chinese history has failed, but their revolutionary acts have revealed this truth—people are the makers of history. The army that represents the will of the people is invincible, and its heroic feats live on forever in the hearts of men, becoming a source of spiritual strength which encourages the people in their struggles. The great peasant rebellion led by Chen Sheng and Wu Guang set the precedent for opposition to feudal rule. The phrase "any man with a wooden stave in hand can make a soldier, and any bamboo cane will serve as our flag" became an expression of praise in the following centuries for peasant rebellions. The great historian Sima Qian stated, "When the Qin dynasty lost its way, Chen Sheng rose to fame. The nobility fought among themselves, and nowhere was there peace. The little man overthrew the Qin nobility. The whole conflagration was started by Chen Sheng." The Qing dynasty poet Qu Dajun wrote, "The day the common people ruled the land, nobility in Yuyang were banished to the frontier. Anyone can become nobility, and a bamboo cane and wooden stave make a soldier. A righteous cause attracted great men, who relied on ghostly lights and howling sounds to frighten the enemy. It was Chen Sheng and Wu Guang who played the greatest role in overthrowing the Qin dynasty. What Han general can compare with them?" The Green Forest and Red Eyebrow rebellions also had a deep impact upon future generations. From that time onward, people always referred to armed bands of peasants who congregated in mountains and forests to rebel against the landlord class as "heroes from the green forest" and "righteous fellows from the green forest." The Huang Chao rebellion revealed the fact that "officials need not be feared, and it has never

been wise to take the common man lightly."<sup>8</sup> This phrase became a proverb which has been passed down through the ages. After Huang Chao met his death, many people did not believe that he had really died. Among the common folk in Shaanxi and Henan, the story persisted for a long time that the clever Huang Chao had escaped the enemy dragnet at the last moment, became a monk, and kept his identity a secret until he died of old age. In the area of Changan, it is still said that there is a tomb there for Huang Chao, and that many people come every year to sweep the grave. Although the Zhong Xiang-Yang Mo rebellion failed, the heroes of the rebellion have always been remembered with affection by the people. It is written that in Huarong County, Hunan Province, "in a place called Yanggongjiao, many furled-banner flowers bloom. When the army of Yang Mo was defeated and the troops scattered, they rolled up their banner and buried it in the field. Later, flowers sprouted up everywhere in the shape of rolled-up banners, whence the name of the flower." (*Huarong County Gazetteer*) Wherever the banner of the rebel army was buried, flowers would sprout up all about. This clearly illustrates the esteem in which the heroes were held.

Of course, due to the limitations of class, peasant rebel armies used only a very rudimentary materialism in handling relations between soldiers and the people. In many ways, rebel armies were also negatively influenced by feudal landlord armies. We must take note of this fact. However, from a developmental and historical standpoint, these armies still gained honor for themselves in many ways. We should use the concepts of historical materialism to analyze and study these armies, rejecting the bad, keeping the good, and learning from history.

#### Footnotes

1. *Combined Commentaries on the Taiping Classics*, Volume 48, "The Parting of the Three Interlinkages."
2. *Major Events Portrayed in the Xuzizhi Tongxian*, Volume 13, "The Li Shun Incident."
3. *Record of Events Since the Jianyan Period*, Volume 31, Jianyan fourth year, second month, Jiawu.
4. *Book of Man*, Wang Meng's Biography (last volume).
5. *Chronology of Suikou*.
6. *Shiji*, Tai Shisong's Preface.
7. *Qu Dajun*, Wengshan Shiwei.
8. *Book of New Tang*, Huang Chao's Rebellion.

#### Anonymous Account of Army Role on Tiananmen Square

91CM03064 Hong Kong CHU SHIH NIEN TAI [CHU SHIH NIEN TAI] in *China's No. 252*, 1 Jan 91 pp. 71

[Article by "Anonymous": "A Ride With the Troops Who Cleared Tiananmen Square"]

[Text] In March 1990, the writer boarded a train in Shanxi to go to Xian. Almost everyone on the express train was a soldier. From conversation he learned that they were from the 63d Army, the main force involved in clearing Tiananmen Square on 4 June. At first they would say nothing, but after he got acquainted, they talked about the "atrocities" of the people of Beijing, their "counterattack," whether there were any dead on Tiananmen Square, why so ruthless.

*Editor's Note: The following is an anonymous article that this magazine received. The writer tells how during March 1990 he rode in the same coach on an express train headed for Xian with soldiers of the 63d Army, the main force responsible for "clearing" Tiananmen Square on 4 June, and the chitchat among them including firsthand data about the night they cleared the square. In addition, the writer also reports factually the ideas and the attitudes of the troops who carried out the orders. This is a unique on-the-spot piece of documentary literature.*

Until now, people abroad and the news media have believed that, during the "4 June slaughter," it was the 27th Army stationed at Datong in Shanxi Province that cleared Tiananmen Square. So far as the writer knows, the 27th Army is the unit stationed along a line extending from Zhangjiakou in Hebei to Datong in Shanxi. It is organized as a 5-3-4 type class-A army group. The whole army numbers 40,000 troops.

During a recent trip back to China, the writer learned a piece of information, namely that the main force that cleared the square was not the 27th Army, but rather the 63d Army, which replaced the 21st Army in garrisoning Shanxi in 1966.

#### Liu Guogeng Belonged to the 63d Army

The author reached Shanxi in March. When I boarded a bus in a certain county, I sat with an artillery regiment sergeant who was stationed locally, and I noticed that the sergeant was wearing an insignia above his right jacket pocket. The insignia was rectangular, reminding me of Tiananmen and Beijing. Thus it was that I began to talk with this sergeant. As I expected, his whole regiment had been sent to Beijing to carry out martial law. The regiment arrived in Beijing on 24 May. I asked where they stayed. He did not know. I asked whether he had been hit? He replied that he had been lucky in remaining behind to guard the camp. I asked further what units were around him. Again he did not know. I did not know whether he really did not know or whether he just said he did not know, but his denunciation of the "thugs" was real enough. I gathered that the "guardian of the republic," Liu Guogeng [0491 0948 1649], who died near Tiananmen was a staff officer from the 188th Division of that army. Just then the bus reached Yuci (where the 187th Division is stationed), and he got off. One might say that matters were left up in the air.

On the following day when I bought some film at a photo studio in the county seat of the county in which an artillery regiment was stationed, I ran into an old friend.

A. This person had gone to the 69th Army in Zhangjiakou in 1988 to become a soldier. I noticed that he was also wearing an identical insignia, so I said, "So, you rascal. You're a hero. You went to Beijing too?" He immediately removed the insignia and said that he had remained behind on garrison duty and did not take part. I asked him how he was able to return to Shanxi. He said that he had "presented" a gift of 1,000 yuan to be "transferred" back. (A mere soldier knew how to get his way using money. Transfers from one army to another were practically unheard of in the past, but now they are reportedly fairly frequent). After chatting for a short while I found that he had really matured quite a bit, and was also extremely guarded. To every question he replied, "I don't know." So we could only part with a feeling of irritation.

#### Express Train to Xian

The next day when I was boarding a train to go to Xian, I ran into A again among a large crowd of soldiers on the railroad station platform. He was sending demobilized soldiers back to Shaanxi. He introduced two staff sergeants to me, one named Li Bing [2621 0365] who was in a headquarters unit in the 188th Division. He came from Lantian in Shaanxi, and was 22 years old. The other one named Liu Xuefeng [0491 1331 1496] was in the 197th Division hospital. Both were wearing the same insignia. I took a close look. At the bottom was an inscription that read: Commemorating Entry Into Beijing in 1989 to Put Down Rebellion. He told them to take good care of me, but luckily he forgot to tell them that I was a visiting student. It was on this account that I had an opportunity later on to ask questions. When I got on the train, I found that all the seats were full. We were squeezed into the space between coaches where they are connected together. This was an express train to Xian, and almost everybody on the train was a soldier. Thanks to previous experience, I know quite a bit about life in the armed forces. I felt that, in order to elicit anything from the mouths of these soldiers, I would have to begin with familiar matters and then move farther afield. As soon as I boarded the train, someone started swearing: "God-damn it, I worked hard for three years, and now I can't even find a seat," and on and on. Then there was talking about fellow villagers, and pretty soon the railroad police on board began to change shifts. A column of eight policemen with full arms boarded the train. They began searching one piece of baggage after another, and by the time the train reached Pingyao, they got off carrying two large bundles on their backs and with two men in handcuffs. The entire coach was in an uproar. Many people were swinging leather belts and cursing loudly. Hand grenades, bullets, and daggers had been found. Before I left China, I had never seen such bedlam. In answer to my question, Li Bing said that "This is the way the 63d Army acts. It's this way every year when troops are demobilized." No wonder the police acted as though they were dealing with a major enemy. As soon as the train started to move, wine bottles and tin cans came clattering against the windows from outside like pelting rain. Did the police consider them rioters? Or had they

become bandits? This was the first time I had ever seen such demobilized soldiers! Li Bing said that this was a 63d Army tradition. There were a lot of 188th Division soldiers on this train, and the 188th Division was also the notorious "Bandit 8 Division." It seemed that it was living up to its name. This was an elite division from the Beijing Military District.

Just before nightfall, the men of the 188th Division virtually took over the car. Thanks to "all the army is one family," I also got a seat. A vending cart came through the aisle just then. I bought 10 bottles of beer and a lot of food to offer the others. I noticed that all the vendors were now men, and none of the women train attendants showed their faces. When I asked about this, Sergeant Liu said: "Do you think women would dare appear?" That was really a joke. Through conversation I also found out something about this army's order of battle. This army had been the heroes of Zhenbao Island. It was the backbone of the 2d Field Army with about 30,000 men. The Army headquarters had been located at Jiezhou near Yuncheng in southern Shanxi. It was made up of three infantry divisions and one armored brigade. The 187th Division had four regiments. Division headquarters was at Yuci, and an artillery regiment was at Taigu. The artillery regiment had four battalions. This was probably a class-B combat division with a 4-4-3 organization. The 189th was a small division with a 3-3-3 organization. It was a class-C division. The toughest was the "Bandit 8 Division," 188th Division, at Xinzhou where the local people did not dare approach within 100 meters of the barracks. That division was an elite division in the Beijing Military Region. It had a 5-4-3 organization. A tank regiment was stationed with a military intelligence group at the Guangshe Barracks area in Taiyuan. The artillery regiment was with the division headquarters at Xinzhou, but I did not learn the names of the commanders of the various armies and divisions. Several soldiers began to argue furiously about whether army headquarters was at Taiyuan or at Jiezhou in a real case of soldiers not knowing where their officers were. Then conversation turned to mopping up the riot.

#### Forced Entry Into the City on 18 May

All of those sitting with me were from the tank regiment of the 188th Division. This regiment had not gone to Beijing, so the soldiers also wanted to hear the details. Thereupon, two staff sergeants made a big show of their abilities. Staff Sergeant Liu had been awarded a merit citation third class. He said that he had never been struck, but finally when orders came to fight back, he felled four "rioters" one right after the other. The staff sergeant was also from Lantian. He said he had taught himself kungfu for many years. Asked how he had fought back, he said he used a club. There was no firing of weapons. Staff Sergeant Li was born unlucky. A substitute platoon leader, a piece of the little finger on his right hand had been cut off, and when he was transferred to the Military Museum on 6 June, he was almost killed by a bullet from an illegal rifle. He reported in when he was



to be given a citation, but since he had not given the company commander a "gift," he was prevented from receiving it.

They started out from Shanxi on 24 May, arriving in the suburbs of Beijing early in the morning of the 25th. The rioters blocked them for three days, but on the 28th they began a forced entry into the city. Early on the morning of the 29th, the 187th Division and the 188th Division, as well as two regiments of the 189th Division, entered the Great Hall of the People, taking up positions in each room on the first floor, and setting up machine guns and light artillery pieces. They carried some weapons in with them, others were delivered in ambulances, sedans, and helicopters. The rank-and-file carried no rifles in. They all carried backpacks and formed up into four columns, the physically weak and the small in stature, as well as the radio operators, in the middle. Chief cadres carrying rifles took the lead, and deputy cadres carrying rifles provided cover from the rear. The 187th Division was in the front, and the 188th Division was in the rear, all of them moving ahead as a single unit. They had to force their way through the crowd, and they were not allowed to fight back when they were hit, nor reply when they were cursed. In the words of Li Bing's company commander, "When others hit your left cheek, turn your right cheek."

In this way they squeezed their way through the crowd, the one behind holding on to the backpack of the one ahead. Since it was night, there was not too much of a crowd. It was during this period that he was cut with a knife near Dongsi. I asked him whether it hurt. He replied, "Who could feel any pain at that time? If you were dragged away from the others, it meant your life." Their deputy political instructor was beside him, and all around them were the city people, some of them cursing them, some of them appealing to them, and some of them trying to drag them away. When the deputy political instructor was almost dragged away, he went to his rescue and was cut with a knife. I asked him, "So why did the company commander block your citation afterward?" He said, "At the time, he thought only about the more than 1,000 brothers in the whole company. He wanted to get them all there. There were more than 100 lives." I looked at his injured hand. All of the fingernail on his left little finger had been cut off; only a bald finger remained. What a pitiful soldier!

Talking about "atrocities," he suddenly came to life, and he became furious as well. When the unit was blocked at Gongzhu Cemetery, he had no sleep or cooked food for two days and three nights. Peddlers wanted 30 yuan for a bottle of soda pop, and 10 yuan for ice cream. Loudspeakers harangued everybody from morning till night... until we entered the city. It was a battle to break out of encirclement all the way. Soldiers have to carry out strict orders. They cannot fail to do so, but the city residents did all possible to defend their cause. The farther we went, the more ferociously we were hit. "First the populace blocked us, then they appealed to us, then they tried to drag us away, and finally they fought us to the

death." "No one escaped being hit," Staff Sergeant Liu interjected. When I asked him why he had not been hit, he said he was in an ambulance. "When people were injured, they were carried in." Two men from the 187th Division were killed, and nine were crippled. In the 188th Division, six people were crippled. Casualties in the first division of the 27th Army, which entered the city first, were heavier. The 189th Division was held up at Liubukou and could do nothing but sit around on the ground. The two men from this division did not know what Liu Guogeng had done, but Staff Sergeant Li spoke more factually about three other incidents.

### What Angered the Soldiers

One thing that angered the troops concerned the deputy political commissar of the 188th Division, a major general and "a people's general who had fought for decades." He had blood in his eye because he missed his departure time. Arriving in Beijing by automobile and going through the streets, the populace smashed his vehicle since it was a "Crown," dragged him out of it and paraded him through the streets. They took off all of his clothes then paraded him in the direction of Dongsi. Finally, the Public Security Bureau and a regiment from the 188th Division rescued him. The people have gone mad... The staff sergeant was furious about this, but I did not understand why a person of division rank was riding in a "Crown." When I asked, I learned that it had been paid for by a small coal mine that the 188th Division worked. "At every meeting, the purchase of 20 'Crowns' came up." The small coal mine was a sideline occupation of the unit. Such occupations are common in Shanxi for the purpose of making money to improve the soldiers' livelihood, but all the money was converted to "Crowns." This was really drinking the soldiers' "blood!" How could such a military officer be called "a people's general?" Even to call him "a soldier's general" would not be right. Yet, these two staff sergeants, who also mined coal, sympathized with and respected this general. How pathetic. How tragic!

Another incident was when a female military doctor bandaged the staff sergeant's wound as soon as he entered the Great Hall of the People. Later, when this military doctor (from the 264th Hospital in Shanxi) escorted some injured personnel to the hospital, she was intercepted by some ruffians. Seven injured personnel in the same vehicle as well as the driver were beaten to death. After she was gang raped, she was hung from an overpass, her entire body stripped bare... He was very upset about this female military doctor. Because she was deemed to have shamed the Army, she was refused a citation, and no report was made to higher authority.

The third incident occurred in their platoon. On 2 June, their platoon was responsible for guarding the Great Hall of the People, but they were not issued any ammunition. Three soldiers were assigned to patrol outside a grillwork gate. At around 1800, a group of people carrying a banner reading "XXXX University" violently rushed the three men. Since they had neither ammunition nor

orders, all the three could do was go through the grill-work gate and run inside. One of them, a new soldier from Sichuan, did not run fast enough. Halfway to the gate, he was seized and knocked down with the large banner. A group of people then beat him with their fists and kicked him. "I saw red. I wanted to lead the entire platoon outside to fight them, but the company commander stopped me for fear of damaging the situation as a whole. I stared as they beat him for more than an hour. Finally, when he was carried in after 1900, he appeared dead. There was not a piece of undamaged skin on his body." One can see how the soldiers were angered.

#### **Order To Counterattack Given on the Afternoon of 3 June**

The soldiers were locked in the Great Hall of the People under stress from within and without. They had been cursed and hit often, and they both heard and saw numerous cruel incidents. Their confrontation with the crowd reached the limit. Li Bing said that early in the morning of 3 June several female students from Xian Jiaotong University tried to persuade them to come out in the name of being fellow villagers. Officers and men from the entire regiment cursed them. By this time, there was no way to talk sense. "Had it not been for no orders, the soldiers would have killed the girl students long ago. How was the 188th Division to put up with this?"

At 0800 hours the counterattack orders came down. At the same time, a large quantity of wooden clubs were delivered via the subway, and ammunition was also issued to cadres above the squad leader level, four clips per man (a submachine gun clip has 30 rounds for a total of 120 rounds). The soldiers were not issued ammunition. All party branches received instructions to put down the rebellion, and the 189th Division, which was in a precarious situation, received orders at 0300 hours to make a forced advance. Then the 189th Division fought as it moved ahead. At around 0900 hours, the final barrier was broken through at the entrance to Zhongnanhai, and the division entered Zhongnanhai.

At 1000 hours, all three divisions of the 63d Army began to move. (The armored brigade remained on guard at Jiezhou, dispatching only one communications team. The 188th Division's tank regiment also remained at Taiyuan.) At noon, the 63d Army deployed for battle. Moving through the subway, the 187th Division reached the History Museum, and the 188th Division was beneath Tiananmen Square. The 189th Division remained in the Great Hall of the People. The 27th Army was the last to leave. It was probably between Zhongnanhai and Chairman Mao's mausoleum. The military reconnaissance group (battalion strength) of the 63d Army also went through the subway to an area beneath the mausoleum. (These were the soldiers in camouflage uniforms that seemed to appear from nowhere). Li Bing said that, fearing trouble for the soldiers, he and several squad leaders secretly issued ammunition to the soldiers... After they were deployed, a division of airborne troops (belonging to the 15th Army) from Shenyang formed a square redoubt on Tiananmen Square. Since

they had received no orders, the crowd surrounded and attacked them. Reportedly, one on the perimeter was knocked down to be replaced by one from the inside. Finally, they were forced to retreat from the square. However, this situation was witnessed by the furious soldiers. Later, electricity was cut off, and they used this period of time to come up from the subway to the surface. Then they began to "clear the square."

#### **Quite a Few Dead on the Square**

Here I raised several matters about which people are most concerned: 1) Did anyone die on the square? 2) Did you fire? 3) What was in the bus "loaded with explosives and trying to blow up the Tiananmen Square rostrum" that collided with the armored personnel carrier? The soldiers were very close-mouthed about this. No sooner did they open their mouths than they bit their lip and said nothing. No one died; they all ran away in terror.

I used the later remarks of Hou Dejian (D186 1793 0236), and I pointed out the incident of the armored personnel carrier that had crushed people being burned to show that I was in the "inner circle" and that I knew more than they, etc. The result was that they began to tell the truth. Quite a few people died, but orders were to move in after people barricaded themselves, or to fire when they would not leave forbidden zones. However, the soldiers had long been spoiling for a fight. As soon as the officers blew the bugle, they began to pursue the nearby crowd, twirling their clubs, but they did not fire. "A bus intent on setting fire to Tiananmen" that was driven by several students came rushing forward. "Actually, it was not rushing Tiananmen, but an armored personnel carrier."

"Did it have explosives?"

"It had shit! One student was knocked out from the impact, and two fled. We caught one and beat him to death."

"Did you beat him?"

"I beat him so hard I broke my club."

I never imagined that this guileless and laughing soldier was one of the ogres shown surrounding and beating students on television.

"That taught them not to cause trouble!" he said happily, venting his anger.

What was he to do when avenging the death, injury, and crippling of comrades-in-arms? Such conduct was right from the soldiers' standpoint. He beat them, and when he heard the order "fire," he began a long burst. He was firing at people. The crowd in the distance fled in pandemonium.

The soldiers' mission was very simple, and they were very excited.

"Quite a few people did this: They fired a short burst into the sky, and another one in the direction of the people." He gestured. How to avoid the officers' gaze?

He was angry about their comrades-in-arms. He was an old sub-machine gunner. "Rat-tat... the sky, rat-tat... the people, rat-tat... the sky..."

Finally I asked what was done with the corpses.

"Those left behind were loaded on trucks and hauled away."

I asked what had been burned on the square?

"Odds and ends."

"Corpses?"

"Who knows."

He was tired. A soldier from the tank regiment holding a guitar began to sing. It was a prisoner's song: "... Mom, mom, my mom, my old mother's gray hair..." I sang this song when I was in senior middle school. It was the *Song of the Educated Shanghai Youths* then. It began in prison, went to school, and was now a "military song." In the midst of this sad song, I began to think about these soldiers.

Most of them were simple, good peasant lads without much education, for whom the barracks became their entire world once they joined the Army. What was it that made them so ruthless and so ignorant? Military orders? Or was it...

#### The Defeated Have To Pay a "Riot Fee"

When the train reached Yuncheng, Sargent Liu got off. One tank man who had drunk too much began to vomit. "I fuck your mother, Barf. Barf. I suffered three years for nothing. Sob..." he alternately cursed, vomited, and cried. The soldiers watched him in silence. Li Bing went to find the attendant to borrow a broom. The attendant appeared for the first time, sleepy-eyed—a 30-odd-year-old woman. "Let the attendant sweep up." "Serve the people." The coach suddenly erupted with excitement. The guitar was strumming. Someone rubbed her behind.

"Hoodlum, bandit."

"Who are you cursing?" "Fuck your mother!" The drunk wanted to fight.

Several soldiers came forward to reassure her. One big fellow urged her to leave while at the same time seemingly unconsciously fondling her breasts. Very clever, Li Bing swept up the floor and said, "You have to learn from Lei Feng." Soldiers are good brothers, good, crazy brothers.

A thump came from the opposite side of the car. Li Bing and the tank men rushed over. The train was approaching Fenglingdu. "Someone from the 28th Army wants to steal a seat. Goddamn it." Li Bing rubbed the blood from the corner of his mouth: "They dared to steal an 8th Division seat."

I took out my camera hoping to benefit from the uproar to take a picture.

"What are you doing?" seven or eight soldiers shouted loudly. They were especially unhappy about the flash, and they were getting ready to rush me. I picked up a wine bottle.

"Fuck your mother. Are you from the tank regiment? Come here. What are you up to?" said Li Bing coming forward to mediate. They seemed to realize that this was a far cry from Beijing. They returned to their seats. I fished a box of Wanbaolu [cigarettes] from my pocket and threw it to them. Their anger eased. Suddenly I thought about the arrests in Beijing. "Did you arrest people from photographs?"

"Some were arrested by plainclothesmen, and some were arrested from closed-circuit television used to monitor traffic."

"Were many arrested?"

"Quite a few."

"Then what?"

"Shit. Don't tell me that Beijing people are not bastards. When we entered the city, they wouldn't let us through. They wanted 30 yuan for a bottle of soda. When we left, we couldn't finish eating all we got free of charge. Everything was fine..."

"Did each one pay for his own?"

"Every unit collected a riot fee."

This was really something new. A "riot fee." Cede territory and pay an indemnity, the beaten ones having to pay a price. Ever since the Opium War, justice, evil, and benefits have depended on whether the soldiers win or lose. The weak have to pay an indemnity. "Riot fees" were collected in Xian, Shanghai, and Taiyuan. Beijing, in particular, was "raped" and occupied, and a per capita "riot fee" was collected. In ancient and modern times, and in both China and other countries, such a thing was unheard of.

#### Why So Ruthless at That Time?

When I went to the toilet, I found that the recently defeated were sitting helter-skelter in the space between cars, some of them sleeping. A person standing at the door of the toilet asked, "63d Army?"

"No, the 27th Army," I lied. In order to avoid embarrassment, I quickly offered a cigarette and asked, "Where are you going?"

"Back to Baotou." His shoulder insignia showed one broad and three narrow stripes. A sergeant, a peasant soldier.

"The 28th Army also went, didn't it?"

"Yes."

"It wasn't hit?"

"No. No one in our army was hit."

"What happened?"



"Shit. How should I know? When we were about to go into the city, I ran away. My folks have no one to do the farming."

"So you didn't go into the city?"

"No. Not a single soldier moved."

"How come?"

"Our army and our division ran away. You don't know. The day the order came down, the army commander and the political commissar fled from sight."

"Couldn't the deputies take charge?"

"Who would take the responsibility?"

The officers in this army were very "smart." Once they delivered the troops, the officers disappeared for a while. They were afraid they could not carry out their responsibilities.

"The 38th Army also got into trouble. Did you know that?" he told me with pleasure.

"Where did you come from?"

"Inner Mongolia. We are the first border defense line."

"What is your army commander's name?"

"I don't know."

"Come on. I'll find you a seat."

"That's all right. I'm used to it."

"Come on."

"That's all right."

Looking at him, I thought: "He's an ordinary person who loves peace first and is a soldier only second. No wonder there were so many soldiers who 'disappeared' in Beijing at that time."

"Have a cigarette."

"Thank you." He was very grateful and gave me half a bottle of wine. It was the cheapest brand of "Tequ." My eyes were a little moist, but I didn't want him to see. I didn't want to refuse his kindness either, so I turned away and went into the coach carrying the bottle of wine. Someone tripped me, but I didn't fall down.

Li Bing and the tank men were drinking again. The devil of drunkenness sleeps inside soldiers. A guitar string was also broken. I asked Li Bing, "Why were you so ruthless at that time?"

"The ordinary people were even more ruthless."

My eyes opened wide. I was thinking about the soldier I just talked to as I looked at Li Bing before me: "Why were the common people so ruthless toward you?"

He sprawled on the table and slipped to the floor dead drunk. The tank man sat there holding a glass of wine, still drinking. "The young girl is going to leave..."

The troop train puffed on into the darkness so slowly and so somberly...

#### **Mass Production of Zhi-8 Helicopters Begins**

*(JW 080,004) Beijing XINHUA in English 0211 GMT  
6 Mar 91*

[Text] Beijing, March 6 (XINHUA)—China recently begun mass production of its heavy-duty Zhi-8 helicopters for military use. PEOPLE'S DAILY reported today.

The overseas edition of the paper said that the helicopter is able to accommodate two jeeps and 39 passengers. The helicopter can also fly 800 kilometers with a five-ton payload and drift and slide in water, according to the paper.

China produced the first such helicopter in 1989. Field tests have demonstrated that the helicopter is fast, easy to operate, comparatively quiet and safe.

## CENTRAL-SOUTH REGION

**Guangdong Courts Intensify Attack on '7 Vices'**

*91CM03104 Beijing FAZHIBAO in Chinese  
9 Jan 91 p 3*

[Article by Gao Zong (7559 1350): "Investigative Analysis Shows: 'Seven Vices' Jeopardize Political Stability, Pollute Social Environment"]

[Text] The Guangdong Provincial Higher Court recently made a special-topic investigative analysis of the crimes of the "seven vices." The result of the analysis showed that the "seven vices" seriously harm both the cause of reform and opening up to the outside world and the stability of society, and that they pollute the social environment. Therefore, there must be a heavy and swift attack on the "seven vices" crimes in order to reduce their number and then put an end to them.

Currently the main manifestations of the perniciousness of the "seven vices" are:

**They lead to the commission of serious crimes, thereby making the situation in public order more grim and complex.** The "seven vices" are ugly phenomena in society, and they also lead to the commission of serious crimes. First, to a large degree they provide the motive for crime. For example, because of the harm done to them by "pornography and drugs," some people lose their morals and commit the crime of gang rape; others, because they are driven by the bad habits of "taking drugs and gambling," commit theft and robbery, kill people and steal their goods. Second, the "seven vices" crimes often lead to shocking and major criminal cases. Third, the "seven vices" impel the dregs of society to form sinister gangs, by means of which their illegal and criminal activities become more rampant. Thieves, robbers, rapists, and murderers are birds of a feather. They not only form a large number of gangs, but also imitate the underworld by setting up a faction that becomes an evil force monopolizing one aspect of crime. A sweeping look at the criminal cases induced by the "seven vices" shows not only that there are many of them but also that among them major, vicious cases are prominent.

**They poison people's souls and pollute the social environment.** The "seven vices" crimes pander to teenagers' psychological state of curiosity and to their sensory stimuli, thereby seriously undermining their physical and mental health so that they become one of the principal objects of poisoning. According to statistics, from January to September of last year, courts in Guangdong Province sentenced 97.2 percent more teenage "criminals" for "seven vices" crimes than in the same period of the year before last, representing the largest increase among all crimes committed by youths. Among these crimes were "pornography, prostitution, and drugs," which accounted for 73.2 percent of the total number of "seven vices" crimes committed by teenagers. For example, teenagers accounted for more than 80 percent of the drug traffickers who were tracked down in all localities. Looking at the present situation in drug use

in his town, the former mayor of Shajing Township, Baonan County, said with distress: "If things continue this way, this generation of Shajing will collapse!"

The "seven vices" have also ruined the happy youth of a large number of women. Some of them had the dedication to make vigorous progress, but money and carnal desire turned them into victims.

**They transmit disease and seriously damage people's health.** The quiet spread of drug use has destroyed many healthy bodies. Because of drug use many people have contracted hepatitis, lost weight, or become wan and sallow; some have actually died from drug poisoning. Venereal disease (VD), which New China once declared had been basically eliminated, has staged a comeback with the help of prostitution, harlotry, and other sexually disordered behavior. In western Guangdong, the activities of abducting and selling women and children are growing in intensity, and have also become an important channel for the transmission of VD. Anxious to be wed, a peasant in Luoding County bought a VD patient as a "wife." Not long afterward he became infected with VD, but it was too late to repent.

**They lead to domestic tragedies and adversely affect social stability.** The inundation of the "seven vices" has caused many affectionate couples to part company and become estranged, and in some families they have led to the tragedies of suicide or murder. For example, because her husband was addicted to gambling and was heavily in debt, a peasant woman in Luofeng County admonished him many times without effect, and was even beaten by him. The idea gradually grew in her mind of putting her child to death so that the family would be without issue, so she killed her eight-year-old son. In some families the members engage in prostitution together; some families become dens for drug use or for trafficking in human beings. Consequently, entire families are chained and put into prison.

**They are detrimental to reform and opening up to the outside world, and they damage the image of the socialist motherland.** In Guangdong Province the majority of "seven vices" lawbreakers and criminals who have been arrested and sentenced come from other provinces and cities. After successfully engaging in the "seven vices," many of them return to their native places, where they play a big role in enticing others. Thus, people think that, in Guangdong's practice of reform and opening up to the outside world, one can do whatever one likes, and one by one they come to Guangdong to fish for "ill-gotten wealth." The "seven vices" in Guangdong are influenced by decadent elements from outside the province. They also encroach on the interests of foreigners. Overseas Chinese, and Hong Kong, Macao, and Taiwan people who enter China's borders, damage the country's image, and have a very bad effect internationally.

**Further inquiries.** In the struggle to eliminate the "seven vices," courts at all levels in Guangdong Province promptly try cases of this type, relentlessly crack down

on criminals, and play a positive role in purifying the social atmosphere and in providing social stability.

During the trial of "seven vices" cases, courts at all levels take effective measures. For cases that are prosecuted they set "the people and the time" and get a tight grip on the settlement of trials. Many courts form collegiate benches to try "seven vices" crimes. On these benches are judicial personnel with abundant experience who are responsible for hearing cases, thereby ensuring the timely settlement of "seven vices" cases.

For the steady, accurate, and relentless crackdown on the "seven vices," courts at all levels make a point of solving three problems well during the trials: 1) getting an accurate conviction based on the actual circumstances of the case; 2) focusing on the characteristic that "seven vices" elements often simultaneously commit other offenses, punishing side by side all the crimes so constituted, and heavily and strictly cracking down on them; and 3) strengthening the supervision of trials, and, for individual cases in which the sentence has been too light, changing the original sentence in accordance with the procedures for trial supervision.

Courts at all levels are intensifying their attack on the "seven vices" by effecting comprehensive control, and in this way they are fundamentally reducing the number of occurrences of "seven vices" crimes. For example, the Jinsha District Court in Shantou City, in every settlement of a case, makes a point of conveying a judicial suggestion on existing problems to the relevant department, thereby effectively plugging loopholes.

#### **Guangdong Issues Rules on Protecting Elderly**

91CM0312A *Guangzhou NANFANG RIBAO* (in Chinese) 23 Jan 91 p 2

[Report: "Guangdong Province Regulations on Protecting the Legal Rights and Interests of the Elderly (Passed by the 17th Standing Committee of the Seventh Guangdong Provincial People's Congress on 10 January 1991)"]

[Text] **Proclamation by the Standing Committee of the Seventh Guangdong Provincial People's Congress (No 13)**

*The following "Guangdong Provincial Regulations on Protecting the Legal Rights and Interests of the Elderly," which was passed by the 17th Standing Committee of the Seventh Guangdong Provincial People's Congress on 10 January 1991, are hereby published by order of the Standing Committee of the Guangdong Provincial People's Congress on 23 January 1991.*

**Article 1.** These regulations were drawn up to protect the legal rights and interests of the elderly, carry forward our traditional virtues of respect and care for the elderly, and establish a good social custom, in accordance with the "Constitution of the PRC," relevant laws, and Guangdong's realities.

**Article 2.** The elderly referred to in these regulations are citizens over 60 years of age.

**Article 3.** Protecting the legal rights and interests of the elderly is the joint responsibility of local state organs at all levels, social groups, enterprises and institutions, autonomous mass organizations at the grassroots level, and citizens throughout Guangdong Province.

**Article 4.** The people's government at all levels is responsible for leading and organizing protection of the legal rights and interests of the elderly.

Responsibility for enforcing these regulations is shared by occupation among labor, personnel, and civil administration departments at all levels.

Elderly committees at all levels will cooperate with the concerned departments to propagate these regulations under the leadership of the local people's government, and will survey and study, make overall plans for, organize coordination of, and supervise checkups of, work for the elderly.

**Article 5.** In order to protect the elderly's human rights, hitting or cursing, insulting, slandering, maltreating, abandoning, or illegally restricting the freedom of action of the elderly are strictly forbidden.

**Article 6.** In order to protect the elderly's right to support, adult children (including adopted and stepchildren, and similarly hereinafter) should ensure their parents' necessary living expenses. Adult children should arrange for treatment or care of parents who are sick or unable to care for themselves, and do household and farm chores for them. When adult children are unable to support their parents, adult grandchildren should perform these chores.

**Article 7.** In order to protect the elderly's right to freedom of marriage, no one may interfere in their remarriage or family life after remarriage.

**Article 8.** In order to protect the elderly's legal property rights, their legal income and property should be under their own control, and no one may seize or divert it.

**Article 9.** In order to protect the elderly's housing rental, residence, and use rights, adult children may not forcibly occupy their housing. Adult children are responsible for helping to improve their parents' substandard housing conditions.

**Article 10.** In order to protect the elderly's right to material assistance from the state or society, civil administration departments will provide relief to the urban elderly who are truly in distress because they have no income or providers, and neighborhoods should give them appropriate living allowances to ensure their necessary living expenses.

The rural elderly who have basically lost the ability to work and have no providers or fixed income will be listed as "households enjoying the five guarantees" (food, clothing, medical care, housing, and burial expenses) upon the approval of town and township



people's governments, with details on their favored treatment being stipulated by the provincial people's government.

**Article 11.** The government at all levels should take active steps to expand and support social insurance and establish and improve social retirement and medical insurance systems, and all enterprises and institutions must participate in social retirement and medical insurance in order to ensure the elderly's legal subsistence rights.

**Article 12.** The government at all levels should urge qualified units or individuals to raise funds to build welfare facilities, such as old folks' homes, welfare homes, apartments for the elderly, and elderly activity centers.

**Article 13.** Organizations, groups, enterprises, institutions, and autonomous mass organizations at the grassroots level should ensure that the elderly enjoy the political, economic, medical, welfare, and other benefits provided by the national and local governments.

**Article 14.** Medical and health units should emphasize medical and health care for the elderly, and provide convenient treatment of the elderly.

**Article 15.** When planning and building housing areas, urban planning and construction departments should make reasonable arrangements for livelihood service facilities and activity centers for the elderly.

Cultural, educational, and sports departments should actively expand cultural, educational, and sports facilities for the elderly. Cultural centers, stadiums (gymsnasiums), and parks must use their respective arenas and facilities to provide conveniences and preferential services for holding cultural, sports, and recreational activities for the elderly.

**Article 16.** Public transportation departments should make bus, boat, and air travel easy for the elderly, and gradually build up and expand facilities and systems to serve the elderly.

**Article 17.** The whole society should emphasize and treasure the knowledge, skills, and experience of the elderly, and support and encourage the elderly to continue to voluntarily contribute what they can to social development, for which they have the right to be compensated.

**Article 18.** Violators of these regulations are subject to criticism and reeducation or disciplinary sanctions by their work units or urban and rural grassroots organizations according to the seriousness of their cases. The criminal responsibility of violators of the criminal law will be legally investigated and affixed by judicial organs.

**Article 19.** Administrative organs at all levels, groups, enterprises and institutions, autonomous mass organizations at the grassroots level, and judicial organs should deal promptly with reports, charges, and appeals concerning violations of the legal rights and interests of the

elderly, and not shift responsibility onto others. Responsibility should be legally investigated and affixed for those directly responsible for not fulfilling obligations, neglecting duties, and creating serious consequences.

**Article 20.** The media, such as the press, radio, and television, and cultural and art troupes must propagate our traditional virtues of respect and care for the elderly, and recognize the elderly's meritorious deeds and the good deeds done by good people in respecting and caring for the elderly.

Guangdong's annual Elderly Festival is held on the ninth day of the ninth month of the lunar year, at which time all units in all areas should hold various activities to show respect for the elderly.

**Article 21.** The provincial people's government can draw up enforcement methods based on these regulations.

**Article 22.** These regulations take effect on 1 February 1991.

## NORTHEAST REGION

### Use, Supervision of State Power Viewed

91CM0284A Harbin FENDOU [STRUGGLE]  
in Chinese No 1, 1 Jan 91 p 16

[Article by Cao Zhirui (2580 1807 6904): "A Talk on the Use of Power"]

[Text] The word power refers to political force and governing power within responsible limits. It is tied to state power and carries particular mandates and restraints. Power belongs to the realm of the superstructure, is determined by reacting on the economic base, and plays either a positive or negative role in driving economic and social development. Thus, it is extremely important for the ruling political party to use state power correctly, and for all party cadres to use well that portion of power that is under their control.

Power contains two properties, as do all things. One is that power is a tool for realizing and achieving particular objectives, that is, its instrumental property. The instrumental property of power is its very essence. Our party and government must rely on the correct line, principles, and policies to lead and govern the state well. We must rely on highly aware people to implement the party's line, principles, and policies, while using safeguards in such forms as laws, decrees, regulations, and orders as mandates and restraints to ensure the correct implementation of the line, principles, and policies formulated by the party and the state. China's People's Congresses, governments at all levels, and all functional departments are all organs of power that exercise power on behalf of the state. All organs and individuals must act within the limits of state power, that is, within the limits of the Constitution, which contains general restraints for the whole society. These organs of power have the highest authority, but they also have mandates that cannot be overstepped. Only in this way can state power truly play an instrumental role in governing the state.

In addition to its instrumental property, power also has a latent corrosive aspect that must not be overlooked, that is, its corrosive property. While the corrosive property of power was not obvious when our party first took power, it has now certainly become a glaring problem. This is because power is not an abstract concept, but rather a concrete condition, and the will of the state and the people is implemented by governments at all levels, all front-line units, all functional departments, and the workers in these organs of power in particular. At question is whether these workers are using the power that they hold to serve the people or are turning it into an instrument of private gain? If it is the latter, then the nature of power changes. The corrosive property of power can now be seen mainly in the serious corruption and unhealthy professional tendencies that exist in the party. If we do not pay attention and make great efforts to surmount the corrosiveness of power, as pointed out in the resolution of the Sixth Plenary Session of the 13th CPC Central Committee, we are in danger of heading for self-destruction. We must pay great attention to making it clear that, as the power that we hold was entrusted to us by the people, we must exercise it with a high degree of responsibility toward the people.

The following things must be accomplished to ensure that we use our power correctly and surmount its corrosiveness: 1) We must establish a correct "concept of power" among all powerholders. Power is ultimately used and realized by people, and various classes of people treat power differently. The outlook on life of the exploiting class is to solely pursue personal power. They think that "holding power is everything," and use it to satisfy their personal interests and selfish desires. However, the concept of power of the proletariat and us Communists is diametrically opposed to that of the exploiting class. All of our cadres and workers, regardless of what jobs they perform or at which level, are public servants who serve the people, and whose power can be used only as a means of serving the people. We must inculcate our cadres with a sense of serving the people in the way they hold and use power, and absolutely not allow them to use their official perks for personal or small-group gain, which would violate our concept of power. 2) We must put firm emphasis on checking unhealthy professional tendencies. The CPC Central Committee is paying special attention to solving the problem of unhealthy professional tendencies. Checking unhealthy professional tendencies is a pressing demand of the masses, and a key way to curb the corrosiveness of power. The existence and prevalence of unhealthy professional tendencies are basically caused by the irregular use of the particular powers of all trades and professions.

In order to prevent the use of power for personal gain, we must also strictly control the party and strengthen our supervisory forces. It is hard to prevent corruption without supervision of power. China's forces for the supervision and restraint of power include supervision by party discipline, administration, law, democratic party groupings, social groups, and the masses. We must bring these supervisory capabilities into full play. In

particular, we must strengthen party discipline over party members. All leading cadres at all levels must conscientiously abide by all party rules and regulations and national laws and decrees. Party organs at all levels must strictly adhere to party membership standards, and all party members must act in accordance with the basic demands and party membership obligations stipulated by the party constitution. In particular, all party members and cadres who hold power must conscientiously subject themselves to supervision by all supervisory forces both within and outside of the party. All party members, regardless of position, are equal as to party discipline, and we must absolutely not allow any favoritism or immunity from party discipline within the party. The higher a cadre's position, the more he must conscientiously take the lead in subjecting himself to supervision. Moreover, party organs and discipline inspection organs at all levels must conscientiously accept responsibility for supervising party members and cadres. Only by strengthening our supervisory forces can we restrain and keep powerholders from abusing their power.

Not only party discipline, but also supervision through law, is necessary to overcome the corrosive effects of power. Supervision through law carries the highest mandate of all types of supervision. Its significance is that it carries the highest legal mandate to uphold the Constitution. It confines within permitted constitutional limits all state political power and actions, in order to ensure that people's political and democratic rights are not infringed upon. Thus, supervision through law has the highest authoritativeness. China is a socialist country, in which the people are the masters and all power belongs to the people. The masses must participate in, help to administer, and, even more important, be able to understand government and political affairs. Only by putting the operating forces of power under the supervision of the broad masses, can we prevent power from deteriorating and ensure that it is used wholeheartedly to serve the people.

## NORTHWEST REGION

### Gansu Stresses Improved Elementary Education

OW 1303172691 Beijing XINHUA in English  
1525 GMT 13 Mar 91

[Text] Lanzhou, March 13 (XINHUA)—Northwest China's Gansu Province has paid great attention to improving primary school education in recent years, and the efforts have paid off.

Since the introduction of the reforms a decade ago, the province's governments at various levels have raised a total of 470 million yuan for the development of education and the improvement of facilities.

The result has been that the entrance rate of children of school age has increased at an average rate of two percent a year, reaching 93.9 percent at present.

To improve primary school education, the provincial educational committee officially applied to the United Nations Educational, Scientific and Cultural Organization (UNESCO) to participate in the organization's "Jip Program" which aims to improve primary education in Asia and the Pacific region.

Together with nine other countries in the region, the province chose 500 primary schools in rural and urban areas as experimental bases for finding effective ways to improve education.

In the past five years, the province has made great efforts in four respects:

—By holding training classes for teachers, and opening broadcasting courses and correspondence schools as well as holding academic discussions for the purpose of improving the quality of teachers;

—By developing education in kindergartens in cities and towns, and developing preschool education in rural areas, for the purpose of improving children's adaptability to primary school education;

—By establishing parental schools to mobilize people from all walks of life to support and pay more attention to primary school education, improve teaching facilities and to do more as regards ideological education for children, and

—By holding training classes for education officials and primary school principals.

During the past five years more than 6,000 teachers from these 500 schools have been trained, accounting for 62 percent of the total number of teachers. And the percentage of students receiving preschool education increased to 88.5 percent from 56.9 percent in 1986.



### **LIAOWANG Analyzes Slumping Stock Market**

91CE0172A Hong Kong LIAOWANG [OUTLOOK]  
OVERSEAS EDITION in Chinese No 46,  
12 Nov 90 pp 25

[Article by Lo Hsiang-hsi (3012 4382 0823): "The Cause and Impact of Taiwan's Slumping Stock Market"]

[Text] Since the beginning of this year, Taiwan's economy has suffered repeated blows. In addition to the economic stagnation and recession and the difficulties caused by the sharp rise in international oil price, recently stock prices have fallen sharply and continuously, causing great anxiety to both the government and the public. How to "save the stock market" has become a focal question for the Taiwan authorities and industrial and commercial circles for the near future.

#### **What Has Caused the Continuous Slump of Taiwan's Stock Market?**

It is reported that the Chia Chuan stock price index of Taiwan's stock market, after setting an all-time high record of 12,682 point on 12 February this year, has been falling continuously, down to 2,626.05 point on 4 October, a drop of nearly 10,000 points, almost 80 percent, in less than eight months. The total value of stocks on the market has also shrunk from NT\$7.08 billion to NT\$1.09 billion, an unprecedented record slump of 76 percent. The extent of the stock market slump has not only far exceeded the 36 percent fall of the "Black Monday" in 1987, but reached the extent to which the U.S. industrial stock price index dropped in three years (1929-1932) in the great depression of the world during the late 1920's and early 1930's.

The continuing slump of Taiwan's stock market is caused by more than one reason.

The first is Taiwan's turbulent political situation. The political wranglings that have erupted one after another this year in Taiwan's "Presidential" election, reorganization of the "Executive Yuan," and "National Policy Conference" and the "uncertainty of Taiwan's future" have all seriously affected the confidence of Taiwan's people in the island's political and economic future, leading directly to the plunge in stock prices, which reflect the people's "confidence index."

The second is the economic slump as a whole. Since the beginning of this year, foreign trade and industrial production have stagnated; the investment climate has deteriorated; and public interest in investment has undergone a downturn. As a result, most people in Taiwan are pessimistic about the future of the economy, which is also a major cause of the slumping stock market.

The third is the huge outflow of capital and the tightening of financial measures by the "central bank," which have reduced funds available for investment in the stock market and weakened support for stock prices.

The fourth is behind-the-scenes manipulation by the big financial groups. In the past few years stock prices had risen sharply until February this year, when they reached

a level 15 times higher than four years ago, but then stock prices suddenly plummeted and dropped by 80 percent in just eight months. Such sharp rises and falls are not normal, and there is obviously manipulation by the big financial groups in the background.

The fifth is the impact of the Persian Gulf crisis. Influenced by the Persian Gulf crisis caused by Iraq's invasion of Kuwait, the rising international oil prices, and the fluctuations in stock markets all over the world, Taiwan's stock prices have fallen continuously. If the fall in Taiwan's stock market in the first half of the year was caused mainly by the political wrangling and economic slump, then the sudden drop of stock prices in the last two months was caused mainly by the tensions in the Persian Gulf and the rising oil prices.

#### **The Impact of the Slumping Stock Market on Taiwan's Economy**

According to a survey by Taiwan's "Council for Economic Reconstruction," when Taiwan's stock prices fall by one-half, that is, when the Chia Chuan index falls below 6,000 points, the fluctuation of the stock market will hurt the economy as a whole. Now the index is not only below 6,000, but has fallen under 3,000. It is bound to have a serious impact on the entire economy. The adverse effects are manifest mainly in the following three areas:

—It has increased the economic difficulties of industrial and commercial enterprises. As the industrial and commercial enterprises are already hard hit by declining exports, deteriorating public order, and rising costs, their situation is made even worse by the falling stock prices. A few years ago, when the stock market was prospering, many enterprises borrowed money from banks to speculate in stocks. Now that stock prices have plummeted, they are caught without sufficient collateral. Even if the banks did not press for repayment of existing loans, they are not likely to extend new ones, and it is difficult for the enterprises to get the working funds they need. The problem is especially serious for the small- and medium-sized enterprises, and many of them have landed in a predicament because of the falling stock prices. A senior official of Taiwan's Ministry of Economic Affairs said, Taiwan's "enterprises are faced with increasing difficulties, and it is very likely that a wave of business failures and close-downs will occur before the end of the year."

—It has increased the risks for the financial institutions. Industrial and commercial enterprises are not the only traders in stocks. Financial institutions (particularly trust and investment companies and credit cooperatives) also lend money to related enterprises and indirectly participate in stock market operations. According to Taiwan newspaper reports, scores of financial institutions, mostly credit cooperatives, farmers' associations, fishermen's associations, and other grassroots financial institutions in Taiwan are now on the "danger line" (with a high rate of dishonored checks). "These financial institutions, which are

closely related to the stock market, are now in a chaotic state in credit payments. They have been dragged into the quagmire and are bearing the bitter consequences."

—The service trades have fallen into depression. Nearly 5 million people have opened accounts with the stock market. Assuming that one-half of these people are dealing in stocks on a regular basis and that each has a family of four, then 10 million people in Taiwan are involved with the stock market. As stock prices plummet, most of them suffer losses and are forced to reduce spending and cut down on consumption. Under the circumstances, it is inevitable that the service trades will be affected. Moreover, when the stock market was prospering, the service trades, including caterers, department stores, real estate agents, etc., also prospered and hired many workers. Now with the decline of the stock market, they are either going out of business or laying off workers, resulting in a sharp rise in unemployment. A Taiwan newspaper said: Taiwan's stock market "quickly went

up and quickly fell down. The drastic rise and fall have not only set off a chain reaction affecting the securities companies, financial institutions, insurance and trust companies, small- and medium-sized enterprises, and people in all trades, but even those who have never owned or invested in stocks have to acknowledge that the continuing slump in stock prices has indeed produced some adverse effects on the economy and society."

In the face of the slumping stock market and the serious impact on the economy, the Taiwan authorities recently have adopted a number of measures to "save the stock market," but to no avail, and the stock market has shown no sign of improvement. Because the major factors which have caused the slump of the stock market (particularly the Middle East situation) still remain. If the tense Middle East situation drags on, the international oil prices will remain high for a long time, which will be most disadvantageous to Taiwan's economy and will continue to seriously affect the confidence of Taiwan's stock investors.

### General Wang Sheng Discusses Political Warfare

91CM0172A Taipei HSIN HSIN WEN [THE JOURNALIST] in Chinese No 193, 25 Nov 90 pp 36-38

[Transoceanic telephone interview by Ch'iu Ming-hui (6726 6900 6540) with Wang Sheng: "We Handle Political Warfare Like a 'Little Wife'"]

[Text] Wang Sheng [3769 2573], who was director of the Ministry of Defense's General Political Warfare Department for eight years, was heavily utilized by Chiang Ching-kuo in the days after the Chungli incident, and he held overwhelming power during the time of the "Liu Shao-k'ang [0491 1421 1660] Office." Just as the various media reported that he was about to move up, he was abruptly removed as the director of the General Political Warfare Department. The "Liu Shao-k'ang Office" was also abolished too. Overnight, Wang Sheng's political career hit rock bottom. A few months later he quietly left Taiwan, posted to Paraguay as ambassador, where he remains to this day.

Because Wang Sheng's students are widely dispersed throughout the political warfare system, the senior political warfare veteran, who always stressed "specializing in dealing with the Communist Party," continues to wield considerable influence and power.

How does Wang Sheng, who has been away from Taiwan for more than seven years but who has never given up his unfulfilled desire to return, regard his past, glorious political history? How does he view the current political system, which has already made slow changes? How much influence does he still have in Taiwan's political arena? The following is a brief summary of the contents of this publication's transoceanic interview:

Question: What do you think are the focal points of the work political warfare personnel conduct among the troops?

Answer: They can probably be divided into two types: The first is raising and encouraging troop morale. It is not enough to merely foster good morale. Morale must be maintained, because if there is no morale among the troops, even the best weapons will be useless. The second is being close to the people, and not abusing them; one cannot take the people's belongings at will. Protecting national security and the people's safety are probably the most important points.

Question: When you first became director of the General Political Warfare Department, you established the "Liu Shao-k'ang Office." What was the background and goal of setting up this office?

Answer: This cannot be clearly discussed by phone. Simply stated, it was to protect national security, because at the time the Chinese Communists were spending several hundred million dollars on the United Front, wanting to overthrow our nation. The Liu Shao-k'ang Office was established to oppose the Chinese Communist conspiracy.

Question: What major political policies were handled by the Liu Shao-k'ang Office?

Answer: The most important policy was to not let others capsize the ship. We had to protect the security of 20 million people and the roots of Chinese culture. After the Liu Shao-k'ang Office closed, did you see any undesirable after-effects? Was there any corruption, inequitable treatment? The facts are there for all to see! Some people are always suspicious of others and do not look at the facts.

Question: When the Liu Shao-k'ang Office decided important policies, who participated?

Answer: Practically every day the office heard reports at a breakfast meeting, so that no work time would be wasted. It coordinated things through the breakfast meeting reports. All important party, government, and military functionaries participated. Mr. Chiang Yen-shih [5592 1750 1102] was the person responsible; he knows the most about this matter.

Question: The decision to hold the Women's World Cup Baseball Tournament was made by the Liu Shao-k'ang Office. In general, what proceedings led to the decision?

Answer: It is rather amusing to think about it now. Originally the women's baseball competition was a very important physical sport. At the time, many people reported to Mr. Ching-kuo that it should not be held, because if the Chinese Communists sent a team to compete, it would greatly affect the "Three No's" policy. If the mainland team won, should we applaud? Because of such considerations, Mr. Ching-kuo leaned toward not holding the event. At the time, the Liu Shao-k'ang Office did not fear offending anyone or causing trouble, and we resolutely recommended that it be held.

Because this was to be a world class competition, if we were to hold it, we would be a nation recognized by the world! If we had not held it, the Chinese Communists would have held it. If they had, we would have forfeited our prerogative and been unable to face our people. We welcomed the Communists, but they dared not come.

Question: What was your relationship with Mr. Chiang Yen-shih at the time?

Answer: I felt that Mr. Chiang Yen-shih was a sanguine, enthusiastic, and sincere person; I had an extremely good relationship with him. Mr. Ching-kuo first gave me this responsibility so that I could report directly to him about which agencies were uncooperative, but I resolutely avoided doing that. I was his student, his old cadre, and was too close to him; others would have regarded me as part of a small faction around Mr. Ching-kuo. So I asked Mr. Chiang Yen-shih to take the responsibility, and I helped him.

Question: After you left the General Political Warfare Department, you gathered your staff together for a talk. You said that the Communist Party was not the terrifying thing, that what was terrifying was the internal fighting. Is this true?



Answer: It cannot be explained that way. I meant that the Communist Party need not be feared: one day it will collapse. We must be careful not to fall for their tricks and fall apart ourselves before they do. We must all strive together, be careful, and not fall apart ourselves when the enemy has not done so.

Question: It is said that you were forced to leave the General Political Warfare Department and that it had something to do with Mr. Chiang Hsiao-wu [5592 1321 2976].

Answer: There is no connection. His father was my teacher. I am unclear as to whether he had something against me, but I always treated him well, because he did not want to be director or grab my position. At the time there were many rumors, such as Wang Sheng was moving up, that the Liu Shao-k'ang Office was the upper echelon's central standing committee, etc.! In any event, if it had been contrary to some interests, those people would not have allowed it.

My Liu Shao-K'ang Office never asked the central government for money, nor requested powers from the government, nor asked for my personal office. We helped the central government plan everything, letting General Secretary Chien Yen-shih report to the Chairman; I avoided reporting personally. We informed other agencies of their decisions, and coordinated with the Executive Yuan. My Liu Shao-k'ang Office never promoted anyone or hurt anyone, and we devoted our loyal hearts and minds to ensuring the Chinese Communist conspiracy came to nothing. I, a person with no scholarship or ability, was able to become a member of the standing Committee, be designated a professor, teach at the Political University for nine years, and am now an ambassador with full powers; I have no resentment.

Question: Have you thought about returning to develop and settle down?

Answer: At my age, what am I going to develop? Are you saying I should get rich? Be an official? Wield power? What are you saying I should develop?

I am hoping to live in Taiwan and share its fate. If people in the country view me as an annoyance, as in the way, then of course I shall drift around overseas. Aren't there people who fear me, fear that should I return I would have dissenting ideas, that if I, Wang Sheng, returned there would be problems! Then I won't go and bother anyone; I will just exile myself overseas!

Question: Is there opposition to your returning?

Answer: I wouldn't know! As the saying goes, "A man's heart is hidden within." Value judgments are different now. In the past, our work in Taiwan was based on two sentences from Chiang Kai-shek: "The rise and fall of a country is one's own responsibility. It is above the concern for one's own life or death." Now Taiwan practices utilitarianism, and individual interests seem to be stressed more. People such as I do not fit in.

Question: In the past there were always rumors that relations between officers from the political warfare system and officers from Whampoa were rather tense. What is your opinion?

Answer: I don't know about how it is now, but when I was with troops in the past, we blended like "water and milk." Ask those troops how I got along with them when I was with them. As for Mr. Yen Pai-ch'ien [6056 4102 6197], he himself started as a troop commander, as did Director Hsu [6079], his predecessor. These two were my classmates in Class 16 at the Academy. You can ask them.

Question: What is your impression of Yen Pai-ch'ien, former director of the General Political Warfare Department? What were his accomplishments as leader of the political warfare system?

Answer: He is a very knowledgeable person; aside from that, I cannot truly critique. As they act as director, my successors will be even better than I.

Question: General Yang T'ing-yun [2799 0080 0061] recently became director. Did you know hear about that? What is your personal view of him?

Answer: Do you think this news is good or bad? Others are in Taiwan! I have been away from Taiwan for more than seven years. You should have a clearer view on this than I.

Recently the newspapers categorized Yang as introverted and not very outgoing. He is a straightforward, down-to-earth type of man. I know him well, he is a very practical man.

Question: Some people feel that Yang's ascension to the directorship means that Hao Po-ts'un's influence is expanding to the political warfare system. What do you think?

Answer: Not at all! General Hao is wholeheartedly for the country, for the security of the property of the 20 million people of Taiwan. Why should he use Yang, or a few others to control the armed forces? Think about today's forces—all high school and college students have joined. Can you practice a policy for ignorant masses? Can you use a few people to control the military? This violates national interests. Impossible (repeated three times)! Since assuming office, General Hao Po-ts'un has demonstrated total devotion to the country, to Taiwan. Why doubt him?

Question: Whether political warfare work and whether the Political Warfare Academy should go or stay have been continuous topics of discussion. What are your views?

Answer: If one day the Communist Party is no more, the military is on track, and people's safety and livelihoods are protected, then political warfare work can be abolished. But under the present circumstances, it should be stepped up.

As for the Political Warfare Academy, to my knowledge there is a Distant Friends Class, with some 40 countries sending people here to study. Each student feels that political warfare is very important. Why does the Republic of China want to abolish the academy itself? Over the past few days Paraguay has sent five people there to study! Others consider the academy wonderful, so why do we want to abolish it? Probably a certain element does not like it and wants to do away with it. We must strongly stress that, if the day comes when political warfare is no longer necessary, then the school will not be necessary either!

Question: After martial law was lifted, did you feel there were places where political warfare work was worth revising?

Answer: There has been revision since martial law was lifted. During the martial law period, publications expressing opinions on public affairs were controlled by Garrison Headquarters, by the military. After martial law was lifted, the military lifted its controls. The Republic of China's military has never interfered in politics. Haven't you noticed this characteristic? When you served in the military, did you ever see an inclination by the military to stage a coup or gain special powers? Go ask the 4 million reservists and see whether any reservist can say that political warfare personnel taught them how to stage a coup. Special powers? What political warfare people talk about is protecting national security and the people's welfare. Why doubt them?

Question: Some say that the contents of the most recent revision of *The Introduction to Political Warfare* by the Political Warfare Academy was sent overseas for you to look at. Is that true?

Answer: *The Introduction to Political Warfare* is a book. A noted scholar from Colombia read it, praised it, and spent two years revising the Spanish edition. After he spent money to print it, he sent it to the General Political Warfare Department, which found several scholars to revise it. How it was revised, I do not know. This is a matter of scholarly study; I did not read it after the revision. I feel that the scholar's enthusiasm would mean a very good revision; he had no ill will. I hear that the General Political Warfare Department gave him an award.

Question: What position do you think the political warfare people occupied in government or in party or national power in the past? Were they respected?

Answer: Their position was completely that of a "little wife." There was no power, only responsibility. Whenever something went wrong, political warfare people were the first to be punished. Chang [1728], current general manager of the Dawn Company, was punished at the time of the gunfire incident. Now all troops commanders have been restored to their posts, but he has not.

Question: What position do you think the political warfare member should occupy in the government or party?

Answer: No position. He is a soldier, a staff member, an aide to the commander. Of course, is he respected? It all depends on what kind of personal performance is shown. If the assistant company commander does well, then all the officers and men will respect him. If he is lacking in his abilities or methods, then the commander and the troops will not like him.

Question: Some have said that political warfare personnel wielded great authority at the time of the "Eliminate T'ao Pai-ch'uan [7118 4102 1557] Incident?"

Answer: What was the "T'ao Pai-ch'uan Incident"? I do not know it. You must ask Mr. T'ao about this. Ask him, "Mr. T'ao, how do you feel about Mr. Wang Sheng?" He will tell you. You may ask, "Does Mr. Wang Sheng respect you?"

Question: What direction do you feel the political warfare work of the military should take? Is there need for change?

Answer: Move in the direction of the national interest, in the direction that will benefit democracy and freedom. I know our military seeks economic freedom and political democracy; these are the goals of the Three Principles of the People, and they are prescribed in the constitution! Of course, everything must continue to improve, to fit the flow of the time, however I am already behind now. When I left, I did not care about any matters there, because it was a government agency and not my private agency. In the past, some people were suspicious about whether Wang had a private clique. Now, do you see any such clique? Do you see a Wang Sheng Foundation?

#### KMT Values Support of Overseas Chinese

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23 Feb 91

[Text] Taipei, Feb. 23 (CNA)—The Republic of China's ruling Kuomintang [KMT] attaches great importance to the strength of overseas Chinese, a ranking party official said Saturday.

Kao Ming-hui, deputy secretary general of the Kuomintang Central Committee, said in order to successfully carry out the constitutional reform in the Republic of China, the government will capitalize on the strength.

He added that the ruling party will not forget the great contributions overseas Chinese have made to the nation.

Speaking at a tea party hosted by Overseas Chinese Affairs Commission in Taipei in honor of overseas Chinese leaders and scholars, Kao also called upon overseas Chinese to pool their wisdom to support the reform program in the nation.

The Kuomintang is determined to overcome all difficulties in carrying out the programs, he said. The support of all compatriots at home and abroad is important to the successful completion of such programs, he added.

**Two Major Domestic Crises To Confront**

91CM0240A Hong Kong MING PAO in Chinese  
3 Jan 91 p 23

[Article by Chen Wen-hung (7115 2429 7703): "The Major Crises of the Transition Period"]

[Text] The greatest crises facing Hong Kong as it approaches the 1997 transition do not originate in China, but within Hong Kong itself.

As for China, if it does not handle Hong Kong properly, Hong Kong will become a huge economic and political burden. As far as having Chinese officials come in and run things, one can look at the previous achievements of Shanghai's reform, which even China acknowledges was a huge failure. It is indeed because China has no confidence in its own ability to maintain the flourishing development of Hong Kong in the period after 1997 that it produced the unprecedented concessions and compromises of the "one country, two systems" plan, which leaves things unchanged for 50 years.

Even if one doubts the good faith of the Chinese government, does not trust the Communist Party of China, and only looks at things from the perspective of gains and losses, the CPC Central Committee leadership cannot foolishly believe that China can simply take over control of Hong Kong without needing to rely on "Hong Kong people governing Hong Kong."

What is worrisome is whether the Chinese leadership could make a mess of things with the best of intentions. Because there is excessive nervousness and worry about the prosperity and stability of Hong Kong, a good starting point might bring negative results when specific measures are carried out, because the level of the officials is limited. In restraining itself from entering local government, and in proceeding from personal interest and ignorance, China's central government may end up damaging Chinese-Hong Kong relations, and infringe on and damage Hong Kong's interests.

**The Question of Who Governs During the Transition Period**

The first aspect is that, during the transition period, Hong Kong will be ruled by an absolutely undemocratic colonial government. Hong Kong society has no way of restricting and controlling this government through its legal system or legal procedures. In particular, by appointing the members of the Executive and Legislative Councils, this colonial government can enlist social support through so-called representatives of the will of the people. Thus only the British government can control and manage this government. The problem is, internal wrangles within the British government are intense, personnel changes are frequent, and there is no time to monitor officials of Hong Kong's colonial government. The political ruling forces produced by democratic party politics in Britain have not necessarily been able to effectively control the colonial government or the policies it implements in Hong Kong. There is a great possibility that the Hong Kong colonial government will

become a private preserve, not responsible to Hong Kong society and not accepting control by the British government. In addition, because British rule in Hong Kong will end on 30 July 1997, high-level officials within the colonial government bureaucracy that are of British nationality will not be able to extend their service beyond that 1997 time limit. Because their period of service is limited, and because the lowering of the flag and the withdrawal of the British from Hong Kong is an inglorious event in terms of the great British empire, high-level officials of British nationality who serve in Hong Kong may not have any future official career of which to speak.

In the first place, after these officials retire over the next six or seven years, I do not believe that there will be anyone who would abandon a current position in the British government and come to Hong Kong to serve out the remainder of retirees' terms. For example, if the governor of Hong Kong was incapable of fulfilling his duties, or if he left his position for another reason within this limited period, I think it would be very difficult for the British government to find a suitable candidate within the British foreign service to replace him. And if those currently holding high-level positions, such as the heads of the Civil Administration Department, Public Finance Department, and the Legal Department, left their positions within a short period, it would also be difficult to imagine that others would choose to leave Britain and travel to a new place to assume a new post.

Second, if those currently holding positions have not reached retirement age by the time 1997 arrives, I believe that the new government of the Hong Kong Special Administrative Region could not continue to keep them on. Thus their only choices would be to go to work for private organizations or return home. Therefore, politically speaking, post-1997 and pre-1997 Hong Kong will undoubtedly be different. At a minimum, after high-level officials of British nationality depart, even if they go to work for private organizations, it will be difficult for them to utilize the vestiges of their political influence, and their market value will not be comparable to what it was in the past. In addition, because the colonial bureaucracy is not subordinate to a major bureaucratic system in the British government, after returning to their country, officials will have to occupy insignificant positions, except for the governor of Hong Kong, who could beg for a position in the Foreign Office. On no account will they be able to enjoy the excellent pay and benefits they had in Hong Kong.

Therefore, 1997 is clearly a major restriction for these officials. After then, they will not be able to enjoy high-level positions or great wealth again. In particular, for the generation that has not yet retired, the 1997 limit will cut short their career development, which could compel them to retire early, and it may be difficult to avoid creating feelings of resentment. In addition, it stands to reason that as the time approaches, they will strive for the greatest benefits.



Thus their thinking, emotions, considerations, inclinations, and choices cannot be similar to those they had previously, and the British colonial bureaucracy of the transition period will be a special kind of colonial bureaucracy.

In addition, because it will be difficult to find people to replace them; because the British government's original power to control appointments and removals in the colonial bureaucracy has changed and decreased; and because of their distressed state of mind, there is a great possibility that the decisions of Hong Kong's colonial government, which the officials have dominated, may become divorced from the interests of Hong Kong society and the interests of the British government. On the one hand, the policies made by these officials could have a very short-term focus, if they would rather sacrifice the interests of post-1997 Hong Kong in order to build a better social and economic situation in the few short years before 1997. On the other hand, officials could work in their own interests, or even act out of resentment, resisting the Chinese government for no reason, provoking various contradictions within Hong Kong society, avenging a personal wrong in the name of the public interest, or using an autocratic and undemocratic political system to achieve their individual goals.

The key question is: What method does Hong Kong society have to control this colonial bureaucracy, which has increasingly refused to be controlled by the British government? How can they be prevented from destroying the opportunities for Hong Kong's post-1997 development before 1997 arrives?

#### **Intensified Divisions Within the Society**

The second aspect is the intensified divisions within Hong Kong society, divisions originating from the wave of emigrants, from those preparing to emigrate but who have not yet left, from emigrants who obtained foreign passports and returned to Hong Kong, and from the life and activity of Hong Kong people themselves.

The interests of emigrants are certainly very different from those who have not emigrated; emigrants can solve their problems with one step, and what the future holds for Hong Kong and whatever changes may occur are of no immediate personal concern to them. For this reason, they cannot link their own interests with that of Hong Kong: as long as Hong Kong is stable for a short period, they can live, work, and make money. The problems of Hong Kong's long-term social and economic development are not within their sphere of concern, and for this reason they cannot approve of building up conditions for the comparatively long-term development of Hong Kong or of improvements in such areas as the tax system, social welfare, education, and science and technology. Because their time in Hong Kong is limited, and it is

linked most of the time with 1997, it is highly probable that their behavior will further aggravate the trend of thought within Hong Kong society of "living for the moment." They do not consider the future, let alone the future of Hong Kong society, and they also do not consider the future of millions of other Hong Kong people who are not contemplating emigration or are unable to emigrate.

Of course, every Hong Kong resident has the right to choose to emigrate; the problem is that, before 1997, those preparing to emigrate and those who have already emigrated but who have returned to Hong Kong all have the right to vote and the right to participate in politics. Even if these forces participating in politics before 1997 have no way to reform the autocracy of Hong Kong's colonial government and the undemocratic system, it will be difficult to avoid creating a variety of inappropriate political conflicts during Hong Kong's transition period. In particular, if some among this group operate out of individual political ideologies or beliefs, regardless of whether they all oppose the Chinese government, it will create contradictions that will result in political conflicts. It could damage the smoothness of the transition period as well as harming the Chinese government's Hong Kong policy.

During the transition period, the greatest danger for Hong Kong is the question of whether during the last days of the British colonial bureaucracy the undemocratic rule will be able to link up, politically and economically, with emigrants who have abandoned Hong Kong or who have permission to leave, and whether they can get the basis for Hong Kong's post-1997 development before Hong Kong returns to China, both for their own benefit and because they do not bear any responsibility to the vast majority of people in Hong Kong society. In the final analysis, they are all foreigners, and not people of Hong Kong.

Perhaps we are trying to estimate what is in the hearts of the great by looking in the hearts of the petty, but when it comes to these "foreign" Hong Kong people, who will not accept restrictions or shoulder responsibilities, we cannot help but raise our defenses and be vigilant on behalf of the long-term interests of the vast majority of people in Hong Kong society.

In the undemocratic political environment of Hong Kong's transition period, should we not have the aid of the Chinese government acting as the final supervisor? Should we not restrain autocratic rule by high-level British officials of the colonial government? At a minimum, regardless of how they do it, the Chinese government must assume responsibility for maintaining the prosperity and stability of Hong Kong, as opposed to the high-level British officials and emigrants!

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